East Coast
METAL DISTRIBUTORS

25C Tax Credit For 2025

Overview

The Energy Efficient Home Improvement Tax Credit (25C) is part of the Inflation Reduction Act of 2022, offering homeowners a non-refundable tax credit to help cover costs for qualifying HVAC improvements made from 2023 to 2032.

Scope

The 25C Tax Credit allows for a non-refundable tax credit of 30% of the total cost of a qualifying Heat Pump HVAC System up to a maximum of $2000.

Requirements

Efficiency requirements are subject to change based on published standards from the Consortium of Energy Efficiency (CEE). For 2025 the Consortium of Energy Efficiency has published the following options for Heat Pump to qualify:

2025 CEE Split ASHP Standards:

	Tier 1 Path A	Tier 1 Path B	Path A and B
SEER 2	16.0	16.0	16.0
EER 2	9.8	11.0	11.0
HSPF 2	8.5	8.0	8.5
Cap Ratio	60% at 5°F/47°F	45% at 5°F/47°F	60% at 5°F/47°F
COP (5°F)	1.75	1.75	1.75

2025 CEE Packaged ASHP Standards:

	SEER 2	EER 2	HSPF 2	Cap Ratio	COP (5°F)
Tier 1	15.2	10.0	7.2	45% at 5°F/47°F	1.75

How It Works:

Non-Refundable tax credits go against your taxable liability, meaning they go dollar for dollar against what you owe in taxes. This is not the same thing as a deduction used to calculate your adjusted gross income. You do not have to owe money at the end of the year to benefit from a non-refundable taxt credit, as it can credit you back for tax withholdings made throughout the year.

Taxable Liability:

The amount you owe the federal government in taxes for the year.

Adjusted Gross Income:

The calculated income after all deductions. This is the amount that you are taxed on.

Example

1 Individual 1

$80,000.00	Income
-$15,000.00	Standard Deduction
$65,000.00	Adjusted Gross Income
$16,000.00	W2 Federal Withholding
$9,214.00	Federal Taxes Owed (Taxable Liability)
-$2,000.00	Non-Refundable Credit
$7,214	Federal Tax Liability
$8,786.00	Federal Refund

Example

2 Married Couple

$120,000.00	Income
-$30,000.00	Standard Deduction
$90,000.00	Adjusted Gross Income
$20,000.00	W2 Federal Withholding
$14,713.50	Federal Taxes Owed (Taxable Liability)
-$2,000.00	Non-Refundable Credit
$12,713.50	Federal Tax Liability
$7,286.50	Federal Refund

Example

3 Individual 2

$45,000.00	Income
-$15,000.00	Standard Deduction
$30,000.00	Adjusted Gross Income
$4,500.00	W2 Federal Withholding
$3,361.50	Federal Taxes Owed (Taxable Liability)
-$2,000.00	Non-Refundable Credit
$1,361.50	Federal Tax Liability
$3,138.50	Federal Refund

Tax Notes

The preceding examples show how a non-refundable tax credit goes against overall federal taxable liability. These examples may lack the complexity of a real tax scenario and are only meant as a rough guide for how the potential credit could apply. A non-refundable tax credit goes against your tax liability, but the non-refundable aspect means that it cannot reduce your tax liability below $0.

In all the preceeding examples, the individuals would have received the full (up to $2000) tax credit. However, Individual #2 has a very low tax liability and, had that individual had more credits or tax deductions, may have developed a tax liability low enough to not be able to take advantage of any or all of the 25C tax credit.

It is crucial to always consult your tax preparer to verify your eligibility for this tax credit incentive.

The included examples are due a federal tax refund.

Tax Notes

A popular misunderstanding is a tax credit goes against what you might owe the federal government after you file taxes, and if you are due a refund, you cannot benefit from a tax credit. This is incorrect.

A tax credit goes against the total of what you owe the federal government in taxes, which also includes what you have paid in withholding throughout the year. If you are due a refund because you overpaid due to withholding, a non-refundable tax credit can enlarge your refund, dollar for dollar, all the way until you effectively owe the government $0 and receive all of your withholdings back.

How to file

The 25C Tax Credit is specifically part of the Energy Efficient Home Improvement Credit. This is filed for on Tax Form 5695 page 2.

Form **5695**

Department of the Treasury
Internal Revenue Service

Residential Energy Credits

Attach to Form 1040, 1040-SR, or 1040-NR.

Go to *www.irs.gov/Form5695* for instructions and the latest information.

OMB No. 1545-0074

2024

Attachment Sequence No. **75**

Name(s) shown on return	**Your social security number**

Under Section B - Residential Energy Property Expenditures, you will fill out sections 21a, 21b, and 21c.

Section B—Residential Energy Property Expenditures

21a Did you incur costs for qualified energy property installed on or in connection with a home located in the United States? . . . . **21a** ☐ **Yes** ☐ **No**

b Was the qualified energy property originally placed into service by you? . . . . **21b** ☐ **Yes** ☐ **No**

If you checked the "No" box for line 21a or 21b, you cannot claim the credit for your residential energy property costs. Skip lines 22 through 25 and line 29. Go to line 26.

c Enter the complete address of each home where you installed qualified energy property.

Number and street	Unit no.	City or town	State	ZIP code

How to file

Specific equipment and installation cost for your qualifying heat pump will enter in line 29 and the appropriate subsection.

29	Heat pumps and heat pump water heaters; biomass stoves and biomass boilers.				
a	Enter the cost of electric or natural gas heat pumps	29a			
b	Enter the cost of electric or natural gas heat pump water heaters	29b			
c	Enter the cost of biomass stoves and biomass boilers	29c			
d	Add lines 29a, 29b, and 29c	29d			
e	Multiply line 29d by 30% (0.30). Enter the results. Do **not** enter more than $2,000			29e	

For the 2025 Tax Year, the IRS will adjust Form-5695 to require new information. Each participating manufacturer with qualifying equipment must apply to be a "Qualified Manufacturer" (QM) and will be assigned a unique 4-digit code.

By January 1, 2026 each QM must submit, and have approved by the IRS, a unique 17-digit PIN that is tied to the AHRI directory for each qualifying equipment match-up that is eligible for the 25C Tax credit.

The Tax Pin requirement does not go into effect until the 2026 Tax Year. For 2025 you may list the Tax Pin if it is available, but otherwise would only need to list the 4-Digit QM code.