

# Expiration and Carryforward Rules for the Residential Clean Energy Credit

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P.L. 119-21, the FY2025 reconciliation law commonly known as the One Big Beautiful Bill Act, repealed the residential clean energy credit (RCEC) for expenditures made after calendar year 2025. Since the enactment of P.L. 119-21 on July 4, there has been significant interest in what is captured by the expression “expenditures made” and how this definition interacts with the RCEC’s carryforward provisions. This Insight explores these questions, provides a brief overview of the RCEC, and describes why the carryforward rules are not affected by the reforms in P.L. 119-21.

## An Overview of the Residential Clean Energy Credit

The RCEC is a federal income tax credit that subsidizes taxpayer purchases of residential renewable energy equipment. Renters and homeowners (though not landlords) installing solar electric panels, geothermal heat pumps, and other types of renewable energy equipment at their homes are eligible for the RCEC. The credit equals 30% of the costs of purchasing, assembling, and installing any equipment qualifying for the credit. For example, a taxpayer who purchases and installs rooftop solar panels at a cost of \$30,000 would be eligible for an RCEC of \$9,000 (30% of \$30,000).

Internal Revenue Service (IRS) data suggest that the RCEC is used predominantly for the installation of solar panels, followed by solar water heaters, geothermal heat pumps, and small wind energy properties. These findings and others are described in CRS Insight IN12423, *Preliminary Data on the IRA Residential Clean Energy Credit*, by Nicholas E. Buffie.

## Carryforward Provisions

The RCEC is *nonrefundable*, meaning that if a taxpayer is eligible for a credit that is greater than their income tax liability, the taxpayer cannot receive a refund for the difference. For instance, if a taxpayer is eligible for a \$9,000 RCEC (as in the example above) and otherwise owes \$7,000 of income taxes, their \$9,000 RCEC would reduce their tax liability to \$0, but they would not receive a \$2,000 refund from the government.

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However, the RCEC may be *carried forward* if a taxpayer does not make full use of the credit in a given year. Continuing with the example above, if a taxpayer has \$2,000 of unused credits, they may carry forward that additional \$2,000 and use it to reduce next year's tax payments by that amount, should they have sufficient tax liability that year. Described more fully, if a taxpayer qualifies for a \$9,000 RCEC in year 1 and owes \$7,000 of taxes in both year 1 and year 2, they may use the RCEC to reduce their year 1 tax liability from \$7,000 to \$0, then may use the RCEC "carryforward" to reduce their year 2 tax liability from \$7,000 to \$5,000. This allows the taxpayer to use the entire RCEC amount over a two-year timespan. Carryforwards may be utilized indefinitely until a taxpayer has used the entire credit amount.

[Preliminary IRS data](#) for tax year 2023 (filing year 2024) show that roughly half of RCEC recipients carried forward part or all of their credits. That year, nearly 1.4 million taxpayers qualified for the RCEC. Approximately 645,000 (46.5%) taxpayers used their entire credits in 2023, while 601,000 (43.3%) carried forward part of their credits, and 142,000 (10.2%) carried forward their entire credits.

## RCEC Expiration in P.L. 119-21

P.L. 119-21 terminates the RCEC at the end of 2025, [stating](#) that the credit "shall not apply with respect to any expenditures made after December 31, 2025."

P.L. 119-21 does not provide further clarification on what qualifies as "expenditures made." This has led to some confusion as to precisely which expenditures are eligible for the RCEC. For example, the law did not clarify the eligibility rules for renewable energy equipment beginning installation in 2025 (when a taxpayer might have made an initial deposit) and completing installation in 2026 (when a final payment might be made). However, the "expenditures made" concept had been defined under prior law. Specifically, Internal Revenue Code (IRC) Section 25D, which authorizes the RCEC, already stated the following in [subsection \(e\)\(8\)](#): "an expenditure with respect to an item shall be treated as made when the original installation of the item is completed." (IRC Section 25D provides [an exception](#) for equipment installed on buildings which are under construction or reconstruction; in such cases, the expenditure is made when the taxpayer begins using the building.) This means that if a taxpayer begins installing renewable energy equipment in 2025 and completes the installation in 2026, the costs incurred for purchasing and installing the equipment will not qualify for the RCEC.

The IRS clarified this point in an [FAQ document](#) published on August 21, stating the following:

[IRC] Section 25D(e)(8)(A) provides that an expenditure with respect to an item is treated as made when the original installation of the item is completed. If installation is completed after December 31, 2025, the expenditure will be treated as made after December 31, 2025, which will prevent the taxpayer from claiming the section 25D credit.

## Taxpayers' Ability to Carry Forward Unused Credit Amounts Is Unaffected

Although the new expiration rules determine which expenditures (i.e., which equipment installations) qualify for the credit, P.L. 119-21 did not change the RCEC's carryforward rules. Therefore, under current law and regulations, taxpayers who make qualifying expenditures before the end of 2025 may carry forward any unused RCEC amounts to future tax years. This is to allow taxpayers carrying forward credits from earlier installations to benefit from the RCEC even after the credit for new installations has expired.

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