STRENGTHENING ENERGY EFFICIENCY TAX INCENTIVES: CREATING JOBS, CUTTING EMISSIONS, AND REDUCING ENERGY BILLS FOR HOMES AND BUSINESSES

Energy efficiency has suffered more job losses as a result of the COVID-19 pandemic than any other energy sector. According to recent analysis of Bureau of Labor Statistics data, some 360,000 energy efficiency workers have been laid off since March as efficiency projects are canceled or postponed due to health and economic concerns. Every state in the country has experienced these job losses. The vast majority are construction jobs, but the damage threatens to cascade into other sectors such as manufacturing and engineering.

Strengthening energy efficiency tax incentives – particularly the Sec. 25C homeowner energy efficiency tax credit and the Sec. 179D commercial building deduction – is among the best tools Washington has for helping to rebuild this sector. Expanding these incentives as proposed below will not only put contractors back to work installing insulation, windows, air conditioners, furnaces and other components, but will drive demand for manufacturing of those products in factories across the country. The incentives outlined below are currently slated to expire on Dec. 31, 2020, meaning urgent Congressional action is needed.

PROVEN IMPACT

Even in a recession, history shows that strengthening these incentives works. The Sec. 25C homeowner incentive, for example, was temporarily expanded in 2009 and 2010 under the American Recovery and Reinvestment Act (ARRA). As the charts below show, claims sharply increased in both years, and corresponding energy efficiency investments nearly quadrupled to more than $25 billion per year from an average of less than $7 billion in a typical year. Many contractors and manufacturers credit the expanded incentive with keeping factories open.

Based in part on that experience, a recent report from the nonpartisan American Council for an Energy Efficient Economy (ACEEE) found that these proposals for expanding and modernizing three energy efficiency incentives would create nearly 600,000 jobs, including more than 234,000 in the first three years. These proposals are supported by a broad coalition of businesses, trade associations, and advocacy groups.
**STRENGTHEN AND MODERNIZE THE SEC. 25C NONBUSINESS ENERGY PROPERTY CREDIT**

The existing 25C incentive encourages homeowner efficiency improvements with a 10% tax credit up to $500 (lifetime cap) for the purchase of energy-efficient equipment or upgrades such as installation and replacement of insulation, duct work, and heating and air conditioning equipment. In its current form, the incentive is not strong enough to stimulate significant demand. We propose extending and expanding this credit in the following ways:

- For the first two years of enactment, strengthen the incentive by doubling the value of the incentive in the Home Energy Savings Act, from a maximum cap of $1,200 to a maximum of $2,400 (including doubling the maximum incentive to up to 30% of eligible expenses and doubling incentive caps for individual product categories contained in the bill). To see the product category caps outlined in the bill and other details, read a [section-by-section of the bill here](https).

**STRENGTHEN AND MODERNIZE THE SEC. 179D ENERGY-EFFICIENT COMMERCIAL BUILDING TAX DEDUCTION**

The 179D incentive offers a deduction of up to $1.80 per square foot for efficiency improvements to lighting, heating, cooling, and the building envelope. We propose to strengthen the incentive in the following ways:

- Extend the incentive as is through 2023 (up to $1.80 per square foot for improvements achieving savings at least 50% more than the minimum requirements under the 2007 version of ASHRAE Standard 90.1).
- Add an alternative pathway for a higher credit of $3.00 per square foot for improvements that exceed a new reference standard that is automatically updated over time. The new reference standard would be updated every few years to reflect the most recent ASHRAE 90.1 commercial building energy code, ensuring that the efficiency performance required to receive the credit keeps pace with technology. Specifically, the update would be implemented two years after the Department of Energy issues a determination that the latest code improves overall efficiency, as called for in statute. To receive the $3.00 deduction, buildings must achieve the following savings:
  - For retrofits of existing buildings built before 2007, 20% greater than the minimum requirements of the applicable reference standard.
  - For new construction or buildings built in 2007 or later, 30% greater than the minimum requirements of the applicable reference standard.
  - Partial credits for lighting, heating and cooling, and envelope work would be maintained.
- Expand the incentive such that nonprofit entities and tribal governments can access it.

A 2017 Regional Economic Models, Inc. study found that strengthening 179D to $3 per square foot with a long-term extension would create almost 77,000 jobs per year while contributing almost $7.4 billion annually in GDP.

**STRENGTHEN AND MODERNIZE THE SEC. 45L ENERGY-EFFICIENT HOME CREDIT**

The 45L credit, also slated to expire at the end of 2020, offers homebuilders a tax credit of up to $2,000 for building a home that meets a certain efficiency performance. To help encourage new construction to meet housing demand with lower energy costs, we propose to expand this incentive through 2022 as outlined in the bipartisan New Home Energy Efficiency Act (S.2595/ H.R.4646), increasing the incentive to $2,500 and gradually modernizing the energy performance required. Additionally, we propose phasing out eligibility based on the 2006 International Energy Conservation Code (IECC) standard starting in 2023, with eligibility in 2023 and beyond only for homes that meet the updated criteria of at least 15% whole-home energy savings compared to homes built to the 2018 International Energy Conservation Code (IECC) standard.