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

More than any other energy solution, energy efficiency is proven to simultaneously reduce carbon emissions while lowering energy bills and creating jobs and economic opportunity. Even after suffering a severe downturn due to the pandemic, the efficiency sector employs more than 2 million Americans – by far the largest workforce in the clean energy economy – and efficiency is projected to account for nearly half of the greenhouse gas emissions reductions needed to meet the goals of the Paris Agreement.

With homes and buildings accounting for nearly 40% of U.S. energy consumption and a similar share of greenhouse gas emission, tax incentives for high-efficiency homes and buildings are among the most powerful tools Washington has for meeting these goals. Expanding these incentives as proposed below would not only put contractors to work across the country installing insulation, windows, air conditioners, furnaces, and other components, but will drive demand for manufacturing of those products in factories nationwide.

PROVEN IMPACT

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. Many contractors and manufacturers credit the expanded incentive with keeping factories open during the recession.

Based in part on that experience, a recent report from the nonpartisan American Council for an Energy-Efficient Economy (ACEEE) found that expanding and modernizing three energy efficiency incentives would create nearly 600,000 jobs, including more than 234,000 in the first three years. Proposals to do so are supported by a broad coalition of businesses, trade associations, and advocacy groups.

<table>
<thead>
<tr>
<th>Incentive Type</th>
<th>Federal Investment (PV $billion)</th>
<th>Jobs created 2020-2023</th>
<th>Total jobs created</th>
<th>CO₂ emissions avoided (MMT)</th>
<th>Energy cost savings (PV $billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home improve. credit</td>
<td>14.4</td>
<td>157,002</td>
<td>195,704</td>
<td>127</td>
<td>22.4</td>
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<tr>
<td>New home credit</td>
<td>2.5</td>
<td>9,448</td>
<td>56,550</td>
<td>40</td>
<td>5.0</td>
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<tr>
<td>Comm. bldg. deduction</td>
<td>3.3</td>
<td>68,350</td>
<td>314,990</td>
<td>174</td>
<td>26.9</td>
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<tr>
<td>Building incentives</td>
<td>20.2</td>
<td>234,800</td>
<td>567,234</td>
<td>340</td>
<td>53.3</td>
</tr>
</tbody>
</table>

Source: American Council for an Energy-Efficient Economy
STRENGTHEN AND MODERNIZE THE SEC. 25C NONBUSINESS ENERGY PROPERTY CREDIT

Homes account for about 20% of U.S. energy consumption, and the existing 25C incentive is simply not meaningful enough to significantly influence consumer behavior. As currently structured, it offers homeowners a tax credit for the purchase of energy-efficient equipment or upgrades such as installation and replacement of insulation, duct work, and heating and air conditioning equipment that meets certain efficiency performance levels. The credit is for up to 10% of eligible expenses, with a $500 lifetime cap. We propose extending and expanding this credit as follows to modernize performance levels and strengthen its impact:

- Enact a long-term extension or make the 25C credit permanent.
- Increase the value of the credit to 30% up to at least $1,200 without limitation on energy property.
- Eliminate the lifetime cap for an annual cap.
- Replace static performance requirements with criteria that automatically evolves over time as technology improves.
- Include material and labor as qualifying and eligible expenses.

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

The current 45L incentive offers homebuilders a tax credit of up to $2,000 for building a home with upgraded efficiency – important because some 1 million new houses are built annually in the U.S. and they will be in use for decades. To encourage a more sustainable future housing stock, we propose expanding the incentive as follows:

- Enact a long-term extension with two incentive tiers included in the Clean Energy for America Act:
  - A Tier 1 credit of $2,500 for new homes meeting the latest national version of ENERGY STAR in place on Jan. 1 of the year construction begins.
  - A Tier 2 credit of $5,000 for new homes meeting the criteria of the Department of Energy’s Zero Energy Ready Homes program.

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 building envelope. It was made permanent in the Consolidated Appropriations Act passed in December 2020 and adjusted to increase for inflation. We propose to strengthen the incentive as follows:

- Replace the existing incentive framework with two incentive tiers:
  - A Tier 1 incentive of $3 per square foot requiring the following performance:
    - 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.
  - A Tier 2 incentive of $6 per square foot requiring 60% greater than the minimum requirements of the applicable reference standard.
- Expand the incentive such that nonprofit entities and tribal governments can access it.

In addition to the ACEEE findings referenced above, 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.