

Testimony of

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**U.S. House of Representatives
Committee on Ways and Means
Subcommittee on Tax Policy**

**Hearing on Post Tax Reform Evaluation of Recently Expired Tax Provisions
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Introduction

The Alliance to Save Energy is a non-profit, bipartisan coalition of business, government, environmental, and consumer-interest leaders that advocates for enhanced U.S. energy productivity to achieve economic growth; a cleaner environment; and greater energy security, affordability, and reliability. The Alliance enjoys the participation of nearly 130 businesses and organizations that collectively represent more than \$870 billion in market capital. The Alliance was founded in 1977 by U.S. Sens. Charles Percy (R-Ill.) and Hubert Humphrey (D-Minn.), and today has 15 members of Congress serving as Honorary Advisors, including Rep. Dave Reichert (R-Wash.), a member of this subcommittee.

The Alliance appreciates the opportunity to testify about the importance of energy efficiency tax incentives. Energy efficiency is our country's greatest energy resource that, when strategically promoted in the tax code, can create jobs and economic activity, enhance energy security, lower harmful emissions, and improve U.S. competitiveness in global markets. Energy efficiency gains made since 1973 have cut energy waste dramatically to fuel the U.S. economy more productively. Thanks in part to federal energy efficiency policy, the U.S. today extracts twice as much gross domestic product (GDP) from each unit of energy we consume when compared to 1980.¹ As energy efficiency has increased, so have stable, good paying jobs. Currently, 2.2 million workers across construction, manufacturing, wholesale trade, and professional and business service industries are employed, in whole or in part, in the energy efficiency sector (see Table 1).² Thoughtful, forward-looking energy efficiency incentives in the tax code will continue to drive job creation and economic growth for families and businesses across the country.

¹ In 1980, the U.S. consumed 78 quads (quadrillion British thermal units (BTUs)) while GDP was \$6.4 trillion, which produces an energy productivity ratio of 82.6. This compares to energy productivity of 176.4 in 2017 (i.e., 96.8 quads and GDP of \$17 trillion). Energy consumption data is from the Energy Information Administration. GDP (real dollars, 2009) is provided by the Bureau of Economic Analysis.

² Environmental Entrepreneurs (E2) and E4TheFuture, "Energy Efficiency Jobs in America," December 2016, <https://www.e2.org/energyefficiencyjobs/>. Last accessed March 12, 2018.

Table 1. Energy Efficiency Jobs by Tax Policy Subcommittee Member District

Member	District	Jobs	Member	District	Jobs
Rep. Vern Buchanan Chairman	FL-16	4,602	Rep. Lloyd Doggett Ranking Member	TX-35	191
Rep. Peter Roskam	IL-6	8,707	Rep. John Larson	CT-1	2,939
Rep. Dave Reichert	WA-8	3,441	Rep. Linda Sanchez	CA-38	9,974
Rep. Jim Renacci	OH-16	1,506	Rep. Mike Thompson	CA-5	9,011
Rep. Kristi Noem	SD-AL	5,464	Rep. Suzan DelBene	WA-1	5,489
Rep. Mike Kelly	PA-3	3,308	Rep. Earl Blumenauer	OR-3	6,801
Rep. George Holding	NC-2	3,574			
Rep. Pat Meehan	PA-7	3,894			
Rep. Jason Smith	MO-8	3,824			
Rep. Tom Rice	SC-7	2,791			
Rep. Kevin Brady <i>Ex Officio</i>	TX-8	2,480	Rep. Richard Neal <i>Ex Officio</i>	MA-1	12,610
Total Energy Efficiency Sector Jobs: 90,606					

Unfortunately, even after passage of H.R. 1, the “Tax Cuts and Jobs Act,” there are currently no provisions in the U.S. tax code designed to encourage investments in energy efficiency. This is a glaring omission. Energy efficiency delivers benefits to homeowners in every state and businesses across all sectors of the economy. Promoting the adoption and deployment of energy efficiency is the smartest energy policy option of all, and the tax code is an ideal vehicle for accomplishing it.

Of specific relevance to today’s proceedings are three tax incentives that were retroactively “extended” through December 31, 2017, but are now expired. These include two residential sector tax credits: Sec. 25C, the Nonbusiness Energy Property Credit for Existing Homes, and Sec. 45L, the Energy Efficient Home Credit. The third, Sec. 179D, the Commercial Building Tax Deduction, promotes energy efficiency in commercial and multifamily buildings. The Alliance strongly supports immediate, forward-looking extensions of these three tax incentives so homeowners and businesses can fully realize the benefits of offset upfront costs and lower energy bills over time. The Alliance also supports modifications in the longer-term to enhance the effectiveness of the provisions in response to improvements in products and technologies, and improve the accessibility for homeowners and businesses.

Summary of Expired Energy Efficiency Tax Incentives

Sec. 25C—Nonbusiness Energy Property Credit for Existing Homes. This provision provides a 10 percent tax credit for the purchase of certain nonbusiness energy-efficient materials up to \$500, providing an incentive for homeowners to choose energy-efficient products over less efficient alternatives. According to a recent U.S. Department of Energy analysis, the national impact of extending this tax credit for 10 years would result in an average increase of sales for eligible equipment by 54 percent and an overall reduction in household energy bills by \$13.1

billion.³ The full impact of the incentive is likely higher because the analysis looked only at five categories of equipment such as central air conditioners, water heaters, furnaces, and heat pumps.

Sec. 45L—Energy Efficient Home Credit. The Sec. 45L incentive provides a credit of \$2,000 for builders of homes that use 50 percent less energy for space heating and cooling and a \$1,000 tax credit to the builder of a new manufactured home achieving 30 percent energy savings for heating and cooling or a manufactured home meeting the ENERGY STAR requirements. The Sec. 45L tax credit has been successful in transforming the new homes market toward more energy-efficient homes. When the credit was enacted less than one percent of new homes met the qualification levels. In recent years the number of homes certified as complying with the tax credit rose to about 10 percent of new homes sold; this growing market share is attributable in substantial part to the new and manufactured homes tax incentive.

Sec. 179D—Commercial Building Tax Deduction. Sec. 179D provides a tax deduction of up to \$1.80 per square foot to help offset some of the high costs of energy efficient components and systems for commercial and larger multifamily buildings. The Sec. 179D deduction has leveraged billions of dollars in private capital, resulted in the energy-efficient construction of thousands of buildings, and created and preserved hundreds of thousands of jobs. It has lowered demands on the power grid and reduced carbon emissions. A recent analysis by Regional Economics Models, Inc., estimates that renewing the tax deduction would create 40,000 to 77,000 new design and construction jobs annually along with nearly \$7.4 billion in annual GDP.⁴

Recommendations for Extension and Modifications

While these three tax incentives have been a remarkable success, the Alliance recommends a series of modifications to enhance the effectiveness and improve the accessibility of the provisions moving forward. The Alliance respectfully encourages the subcommittee to consider adopting changes to the incentives that could deliver greater benefits to America homeowners and businesses. This includes lengthening the period of reinstatement to provide a more consistent, long-term incentive structure and updating eligibility requirements—such as references to updated building energy codes and standards—to reflect the state of the market and improvements in energy efficiency products.⁵

A forward-looking extension of the Secs. 25C and 45L credits and Sec. 179D deduction is a near-term solution to the absence of energy efficiency incentives in the tax code. The Alliance also recommends a parallel effort, undertaken while the extensions are in effect, to reconsider the

³ Alliance to Save Energy, “This New Study Shows How an Energy Efficiency Tax Incentive Would Save U.S. Households a Billion Dollars Each Year,” December 13, 2017, <http://ase.org/blog/new-study-shows-how-energy-efficiency-tax-incentive-would-save-us-households-billion-dollars>. Last accessed March 12, 2018.

⁴ REMI (Regional Economic Models, Inc.), “Analysis of Proposals to Enhance and Extend the Section 179D Energy Efficiency Commercial Buildings Tax Deduction, May 2017, <http://aiad8.prod.acquia-sites.com/sites/default/files/2017-05/Section179DAnalysis-051817.pdf>. Last accessed March 12, 2018.

⁵ Congress updated a reference to an energy efficiency standard—now ASHRAE Standard 90.1-2007—that increased the threshold for eligible projects, when it previously extended 179D through December 31, 2016. Consolidated Appropriations Act, 2016; Pub. L. 114-113, Title III, Sec. 341; 129 Stat. 3113 (2015).

approach of energy efficiency tax incentives. In principle, the Alliance supports the enactment of tax incentives that are:

- simple and straightforward, easy to explain, simple to understand, and devoid of overly-complex market mechanisms;
- strong enough to drive investments and affect homeowner and business behavior;
- carefully designed to minimize “free-ridership;” and
- reasonable in terms of cost to the government when compared to the potential for savings.

By way of example, the Alliance proposes consideration of two bills—one pending in the House and another in the Senate—that are representative of the sort of modifications needed to better leverage the tax code to encourage investments in energy efficiency. The first bill, H.R. 3507, a bill to amend and strengthen Sec. 179D, was introduced by Rep. Reichert on July 27, 2017. H.R. 3507 includes a series of important modifications to 179D, including a permanent extension and direction to the Treasury Department to issue regulations to encourage more governmental and non-profit entities to make energy efficiency investments by allowing the deduction to be allocated to the designer or service provider. The increased certainty of the long-term availability of Sec. 179D, and new clarity around the benefit of the deduction, would likely lead to more commercial and multifamily building retrofits and greater savings.

A second bill, S. 1068, the “Clean Energy for America Act,” was introduced by Sen. Ron Wyden (D-Ore.) on May 8, 2017. S. 1068 also includes a provision addressing the allocation of Sec. 179D deductions when projects involve non-tax-paying entities. But this bill goes further, and would address existing and new homes (i.e., Secs. 25C and 45L, respectively) as well. S. 1068 provides for an alternative, performance-based approach to residential and commercial tax incentives that is designed to encourage the installation of high-efficiency measures and “deeper” energy efficiency retrofits that deliver even greater savings.

The Alliance acknowledges that any effort on the part of the subcommittee to revisit the design of Secs. 25C, 45L, and 179D will invite new ideas and a range of opinions. This would be a positive sign and indicative of the diversity of the energy efficiency sector. The Alliance is already engaged, working to find common ground consistent with the four principles outlined, and focused on a policy outcome that delivers savings for as many homeowners and businesses as possible within existing fiscal constraints.

Conclusion

The Alliance applauds the subcommittee for accepting testimony about the need for forward-looking extensions of Secs. 25C, 45L, and 179, as well as modifications to ensure these provisions deliver maximum savings to homeowners and businesses. In the wake of H.R. 1, a void exists in the tax code that should be filled by immediate extensions of the three energy efficiency tax incentives. And, in the longer-term, the Alliance supports modifications to improve the current provisions and deliver greater savings to homeowners and businesses.

The Alliance thanks the subcommittee and the members of the Committee on Ways and Means for its consideration.