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U.S. House of Representatives
Committee on Ways and Means
Subcommittee on Select Revenue Measures
"Temporary Policy in the Internal Revenue Code"
March 12, 2019

Thank you for the opportunity to submit a written statement regarding the hearing titled, "Temporary Policy in the Internal Revenue Code." We are pleased that the Committee is taking a closer look at temporary incentives in the code and gathering information about the best policy moving forward.

We submit this statement to highlight the ongoing absence of direct incentives – either long-term or temporary – for energy efficiency in the U.S. tax code. We view this as a critical flaw not just in tax policy but also in our climate and economic policy. Energy efficiency is the most powerful energy resource we have. It is both an enormous economic opportunity – by far the largest job-creator in the clean energy sector – and the single most effective solution we have for climate change, with the International Energy Agency reporting that efficiency alone can account for at least 40 percent of the emissions reductions needed to meet global targets. Yet it has been years since the U.S. had meaningful, long-term efficiency incentives, and more than a year since we had any incentives at all.

We urge you to rectify this omission by modernizing the expired temporary efficiency incentives and passing forward-looking, multi-year extensions that provide consumers and businesses the market signals necessary for encouraging improved efficiency. Reflecting the environmental and economic opportunities presented, these extensions would draw not only strong support from efficiency and environmental advocates but also from the business community.

The temporary incentives, which expired on Dec. 31, 2017, are aimed at improving energy efficiency in the built environment, which accounts for roughly 40 percent of U.S. energy consumption and is a leading source of greenhouse gas emissions. Simply put, we will not meet climate goals without significantly improving efficiency in the built environment, including heating and cooling equipment. These buildings will likely be in use for 50 to 100 years, while energy-intensive HVAC and other equipment typically last for a decade or more. Encouraging efficiency now will prevent decades of wasted energy and related carbon emissions.

At the same time, encouraging efficiency is an enormous economic opportunity. Energy efficiency already supports more than 2.3 million jobs across the United States. Almost 70 percent of those jobs are in construction and manufacturing – good-paying jobs that in most cases can't be exported. Additionally, improved efficiency saves businesses and consumers

hundreds of millions of dollars annually on energy bills, strengthening U.S. productivity and competitiveness while reducing demand on a strained utility grid.

From a policy perspective, tax incentives are among the most effective tools we have for influencing behavior and encouraging efficiency upgrades in buildings and homes. The 25C tax credit for homeowner efficiency improvements, 179D deduction for commercial building upgrades, and 45L credit for efficient new home construction have proven track records of success. Yet their impact has been muted in recent years because they have repeatedly expired and been reinstated, often retroactively, leaving consumers, builders and manufacturers uncertain about their availability and unable to plan accordingly. As currently written, they also are outdated, referencing older building codes or efficiency thresholds and offering dollar amounts that haven't kept up with today's market. For example, the incentive for the purchase of a high-efficiency air conditioning system is capped at $300, which is insufficient to significantly impact purchasing decisions on equipment and installation that can cost $10,000 or more.

There is strong evidence that longer-term, higher-value incentives are effective in pushing markets toward efficiency, with enormous impacts on carbon reduction. For example, the Department of Energy last year analyzed energy savings from five product categories under the 25C homeowner efficiency incentive (gas furnaces, electric heat pumps, central air conditioners, gas water heaters, and electric water heaters.) The study concluded that if the incentives for each product were raised to $500 and extended for 10 years, sales of high-efficiency products would increase by 278%, saving 320 TWh of electricity, 2.1 quadrillion BTUs of natural gas, and $52 billion in consumer energy bill savings. That reduction – from just five household products – translates to almost 340 million metric tons of CO2 equivalent reductions – or roughly the same as eliminating the electricity use of 60 million homes for a year. (Note: There are approximately 125 million U.S. homes).

Additional evidence shows that the incentives are utilized far more when they are set at meaningful dollar amounts. After efficiency incentives for home improvements were increased under the American Recovery and Reinvestment Act, for example, nearly 7 million taxpayers claimed them in 2010, during the height of the stimulus. That number gradually fell in subsequent years to 2.2 million in 2015 after the incentives returned to pre-stimulus levels.

For the near term, we encourage the Committee to support common-sense updates to the incentives that could strengthen their impact and pass quickly. This includes updating efficiency requirements to ensure that the incentives are keeping pace with the latest efficiency technologies and market capabilities, as well as increasing the financial values to make the incentives more attractive to consumers and businesses.

While we recognize that this hearing is focused on temporary provisions, we also look forward to working with the committee outside the context of temporary incentives to develop longer-term,

high-impact tax policy encouraging energy efficiency throughout the built environment and elsewhere in the economy.

The expired temporary efficiency incentives are:

Section 25C Homeowner Efficiency Credit – This provision provides a 10 percent tax credit for homeowner energy efficiency improvements, including envelope improvements and heating and cooling upgrades. The incentive has a lifetime cap of $500, with additional caps for individual product categories, such as $300 for air conditioning.

Section 179D Commercial Building Tax Deduction – Section 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 large multifamily buildings. The 179D deduction has leveraged billions of dollars in private capital, resulting in the energy-efficient construction and renovation of thousands of buildings. A recent analysis by Regional Economic Models, Inc. estimated that updating and extending the tax deduction could create nearly 77,000 new design and construction jobs annually along with nearly $7.4 billion in annual GDP.

Section 45L Energy Efficient Home Credit – The 45L incentive provides a credit of $2,000 for builders of homes that use 50% less energy for space heating and cooling and a $1,000 tax credit to the builder of a new manufactured home achieving 30% energy savings for heating and cooling or a manufactured home meeting the ENERGY STAR requirements.

Additional incentives: In addition to the incentives for the built environment, the Alliance strongly supports continuing and updating the Section 30D Electric Vehicle (EV) tax credit, to ensure the continued stimulation of electric vehicle markets. EVs provide a key opportunity for energy efficiency (as EVs are, on average, approximately three times more efficient than conventional vehicles), as well as jobs, climate emissions reductions, and U.S. competitiveness in a fast-growing international market.

About the Alliance to Save Energy

Founded in 1977, the Alliance to Save Energy is a nonprofit, bipartisan alliance of business, government, environmental and consumer leaders working to expand the economy while using less energy. Our mission is to promote energy productivity worldwide – including through energy efficiency – to achieve a stronger economy, a cleaner environment and greater energy security, affordability and reliability.