

Extension for Energy Efficiency Tax Incentives

On December 18, 2015, President Obama signed into law a package of tax breaks worth nearly \$700 billion. The U.S. Senate gave final legislative approval to the tax extenders package by a vote of 65-33, which followed a 318-109 vote in favor of the bill by the U.S. House of Representatives on December 17. Among the many tax incentives included within this package, there are three that will help increase energy efficiency in the United States: 179D, 45L and 25C. These incentives have a proven track record of cutting energy use and helping American consumers and business owners save money. Importantly, these incentives were extended through 2016, which is notable because in recent years Congress was only able to extend incentives on an annual basis or retroactively. The two year extension is critical as it gives American consumers and business owners the certainty needed to invest in energy efficiency upgrades.

Section 179D - promotes energy efficiency in commercial and multifamily buildings, which account for more than 20 percent of energy consumption in the United States.

- Extends the tax deduction through 2016 and updates the required qualification.
- Provides an above-the-line deduction for energy efficiency improvements to lighting, heating, cooling, ventilation, hot water systems or the building envelope of commercial and multifamily buildings.
- The deduction is \$1.80/square foot.
- The threshold to qualify for the deduction will increase, beginning in 2016, from ASHRAE Standard 90.1-2001 to 90.1-2007.
- The depreciation period for commercial buildings and improvements has been permanently reduced from 39 years to 15 years, which will encourage more frequent improvements.

Section 45L - promotes energy efficiency in new homes.

- Extends the tax credit through 2016.
- 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.
- When the credit was enacted likely less than 1% 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% of new homes sold; this growing market share is attributable in substantial part to the new and manufactured homes tax incentive.

Section 25C - promotes energy efficiency in existing homes.

- Extends the tax credit through 2016.
- Provides a 10 percent tax credit for improvements made to increase energy efficiency in existing homes.
- The credit applies for the purchase of energy-efficient materials, up to \$500, providing an incentive for homeowners to choose energy-efficient products over less expensive and efficient alternatives.
- The \$500 is a lifetime limitation and only \$200 of the total may be used on windows.