

What's in the Energy Efficiency Section of the Inflation Reduction Act as it Passed the Senate

The "IRA" is set for consideration by the U.S. House on Friday, August 12th, and some changes may be made to the version passed by the Senate earlier in the week. Most of the Energy Efficiency rebates and tax credits are worked in as amendments to current sections of law for "nonbusiness" 25C (now renamed as "Home Improvement Credit"), 179 D Commercial Buildings Deduction, and 45L New Energy Efficient Home Credits. As it stands now, here are the highlights for the residential construction side of our membership found as amendments to 25C and 45L:

1. A lot of what's in the Act is reliant upon details that the Department of Energy (DOE) has yet to develop, and therefore there is a lot of vagueness in the law.
2. All of the tax credits must be claimed in the tax year in which the item was placed in service, meaning they function more as a rebate.
3. Section 25C has been retitled "Home Improvement Credit" and the program has shifted from a \$600/lifetime credit to \$1,200/year credit with no more than \$600/year for any product or service.
4. At first energy-efficient appliances & boilers/water heaters/heat pumps won't require specific model numbers to get the rebates; that will kick in during 2024 once the DOE sets up a system with manufacturers for assigning numbers and list-keeping. All will need to be certified above Energy Star, to Consortium for Energy Efficiency tiers 2-4.
5. DOE is revising and requiring more energy efficiency in the "new" Energy Star program. Some of the tax credits are keyed to the "new" Energy Star that isn't completed, and there is even some reference to a third-generation Energy Star program to be developed in coming years that appliances will be required to meet once DOE develops that.
6. Natural gas will still be allowed as a fuel source for Energy Star-rated water heaters and furnaces under the current program.
7. Zero energy homes will get extra points, but the requirements to get those won't be developed until later in 2022, so those credits won't be allowed until tax year 2023.
8. Certification of compliance will be done later by folks certified to an as-yet-to-be-determined certification process. Watch for training by Santa Fe Community College to develop these certifiers.
9. To aid the electrification push, tax credits are allowed for boosting electrical service panels to 200 amp if that's done in conjunction with installing one of the new highly-efficient water heaters or furnaces. However, choosing to upgrade the panel to 200 amp while installing a qualified gas water heater or furnace would qualify for the electrical credit as long as they were done at the same time.
10. Tax credits for solar are still 26% for those who installed in 2021, but go back up to 30% for 2022, and then begin to phase down again in January of 2033. Any references to "retro-active increase of solar credits" mentioned by the media means retro for 2022 installations, not 2021.
11. There's a reference on Page 378 of the law to Prevailing Wage for "qualifying residence" under Section (a)(2)(B) of Section 45L(c), but that section isn't found in this new Bill. Most likely it's not for single family, but just for multifamily construction.
12. For contractors who participate in the 45L program for \$2,000 federal tax credit on each home, ADUs (casitas/granny flats) will qualify. This may be an opportunity for a custom builder or remodeler to develop a niche business of building casitas and getting a \$2K tax credit. It also applies to units built for "lease."

Hopefully after the Bill passes there will be a complete reprint of the Energy rebates section.