

November 20, 2015

The Honorable Paul D. Ryan  
Speaker of the House  
U.S. House of Representatives  
H-232  
U.S. Capitol  
Washington, DC 20515

The Honorable Nancy Pelosi  
Democratic Leader  
U.S. House of Representatives  
H-204  
U.S. Capitol  
Washington, DC 20515

The Honorable Mitch McConnell  
Majority Leader  
U.S. Senate  
317 Russell Senate Office Building  
Washington, DC 20510

The Honorable Harry Reid  
Democratic Leader  
U.S. Senate  
522 Hart Senate Office Building  
Washington, DC 20510

Dear Speaker Ryan, Democratic Leader Pelosi, Majority Leader McConnell, and Democratic Leader Reid:

On behalf of a coalition of energy efficiency organizations, large and small businesses, trade associations, and public interest groups, we, the undersigned, urge you to include extensions and updates of the Sec. 25C Nonbusiness Energy Property Credit and the Sec. 179D Commercial Building Tax Deduction, and an extension of the 45L Energy Efficient Home Credit in any tax extender legislation considered by Congress by year's end.

Well-designed energy efficiency tax incentives have a proven track record of cutting energy use and helping consumers save money. But yesterday's innovations are business-as-usual today. Our policies must be adapted to fit with the times and our ever-shifting economic and energy needs. That is why we are asking Congress to extend the 25C and 179D tax incentives with modifications that make them even more effective, and to extend the successful 45L tax credit.

**Sec. 25C Nonbusiness Energy Property Credit**—This provision provides a 10% 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 expensive and efficient alternatives. The current product efficiency levels in the code, however, are out of date and thus may reward many “free riders,” or tax credit recipients who would have made the same purchase decision even if no tax credit were available. And basing the incentive level on cost reduces market incentives to cut the price of efficiency. We recommend that the qualification levels under 25C be revised to higher efficiency levels and that installation costs be included in the cost of the measure.<sup>1</sup> For some measures, such as duct sealing, material costs are small and most of the cost is in labor; homeowners should be able to recoup some of those costs as well. We also urge the committee to consider using an updated 25C as a transition or companion to a new

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<sup>1</sup> The U.S. Senate Finance Committee approved an extension of Sec. 25C that also expands eligible measures and increases energy efficiency requirements. We continue to support further revisions to Sec. 25C to maximize the benefit of the tax credit.

multi-year performance-based tax credit. A technology-neutral performance-based tax credit would reward energy saving levels rather than specific products, aligning taxpayer dollars directly with public policy objectives and supporting the most cost-effective improvements for each homeowner.

**Sec. 179D Commercial Building Tax Deduction**—Sec. 179D promotes energy efficiency in commercial and multifamily buildings, which account for more than 20% of energy consumption in the United States. 179D has been very successful in encouraging energy-efficient new construction and partial building system upgrades, but it has not yet proven to be a meaningful incentive for major energy efficiency retrofits for existing buildings. Up to 80% of U.S. buildings standing today will still be here in 2050. Therefore, 179D should be extended and revised to be a meaningful incentive for energy efficiency upgrades to retrofit existing buildings.<sup>2</sup>

We recommend that 179D be extended with a new performance-based component that rewards retrofits that produce actual and verified energy savings, and that retrofit incentives are scaled to increase with greater energy savings. The current incentive should be increased to a maximum of \$3 per square foot of improved building, and real estate investment trusts (REITs) should be allowed to deduct retrofit project expenses for purposes of taxable income and dividend calculations. Finally, consistent with the bill reported by the U.S. Senate Finance Committee, the base code should be updated to ASHRAE 90.1-2007 (or a more recent ASHRAE standard) in order to raise the performance bar. These changes will result in an improved, technology neutral 179D that creates additional energy savings and jobs.

**45L Energy Efficient Home Credit**—We also urge the extension of the 45L new energy-efficient home tax credit, which was approved by the U.S. Senate Finance Committee. This provision 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. The credit has been renewed several times and most recently lapsed on December 31, 2014. The 45L tax credit has been successful in transforming the new homes market toward more energy-efficient homes. When the credit was enacted, fewer than one of 10,000 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.

Lastly, we encourage a revision to the allowable depreciation period for certain types of equipment from the current 39 years. This amount of time vastly exceeds the lifetime of many types of energy efficiency equipment, and therefore acts as a negative depreciation and a disincentive to installing highly efficient equipment.

Updating and extending these tax incentives will ensure that the United States achieves more while using less to benefit our economy, national security, and environment. We urge you to

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<sup>2</sup> The U.S. Senate Finance Committee approved an extension of Sec. 179D that also adopts the ASHRAE 90.1-2007 energy efficiency standard. We continue to support further revisions to Sec. 179D to maximize the benefit of the tax deduction.

extend and update the Secs. 25C, 179D, and 45L tax provisions for the benefit of America's families and businesses.

Sincerely,

Advanced Energy Economy  
Advanced Power Control, Inc.  
Alliance for Industrial Efficiency  
Alliance to Save Energy  
American Council for an Energy-Efficient Economy  
The American Institute of Architects  
ASHRAE  
Association of Energy Engineers  
Big Ass Solutions  
Brady  
Building Performance Institute  
Business Council for Sustainable Energy  
Danfoss Turbocor  
EcoThermal Filters  
Efficiency First  
Energy Future Coalition  
Federal Performance Contracting Coalition  
Hannon Armstrong Sustainable Infrastructure Capital, Inc.  
Home Performance Coalition  
Illuminating Engineering Society  
Knauf Insulation  
Large Public Power Council  
Legrand  
Lime Energy  
Manufactured Housing Institute  
National Association of Energy Service Companies  
National Association for State Community Services Programs  
National Association of State Energy Officials  
National Grid  
National Resources Defense Council  
Schneider Electric  
Seattle City Light  
Sheet Metal & Air Conditioning Contractor's Association  
The Stella Group, Ltd.

cc: Chairmen and Ranking Members of the U.S. House of Representatives Ways and Means Committee and the U.S. Senate Finance Committee