NMHC NATIONAL MULTIFAMILY HOUSING COUNCIL

NAA NATIONAL APARTMENT ASSOCIATION

ENERGY EFFICIENCY TAX BREAKS

NMHC/NAA Viewpoint

The apartment industry supports the extension of the Energy Efficient Commercial Buildings Deduction and the New Energy Efficient Home Credit beyond their 2014 expiration. We also urge Congress to improve the Commercial Buildings Deduction by establishing a sliding scale of energy improvements, which would help spur investment in energy efficient improvements in older buildings.

The apartment industry supports the extension of two tax incentives, which expired at the end of 2014, to create financial incentives to support energy efficiency investments in commercial properties, including apartments.

First, the Energy Efficient Commercial Buildings Deduction (Section 179D of the Internal Revenue Code) lets owners of buildings with four or more stories deduct between $0.60 and $1.80 per square foot when they install certain energy efficient systems, including HVAC, lighting, and, or building envelope. Second, the New Energy Efficient Home Credit (Section 45L of the Internal Revenue Code) enables developers of new low-rise multifamily properties (three stories or less) to claim a $2,000 per-unit tax credit if those residences achieve a 50 percent energy savings for heating and cooling over the 2006 International Energy Conservation Code (IECC).

Lawmakers should not only extend both of these tax incentives beyond 2014, but they should also enact reforms to make the Section 179D deduction more effective. Currently, to receive the full tax deduction, property owners must reduce a building's total annual power and energy usage by at least 50 percent beyond the baseline requirements established by the ASHRAE 90.1-2001 building energy code.

Investments in building efficiency can improve environmental quality, diminish reliance on fossil fuels and reduce pressure on rents.

This rigorous ASHRAE standard has made it difficult for older apartment communities to retrofit properties and claim the deduction. More than 70 percent of the current apartment stock was constructed before 1990, the era of the modern energy code. These properties could achieve meaningful reductions in energy usage, but even after making significant financial investments to do so, these older properties often still fail to meet the specific code-based performance benchmark.

Lawmakers should expand the terms of the Section 179D deduction so property owners can qualify for the deduction by achieving significant, demonstrated improvements in energy performance relative to a building's own baseline performance data rather than a specific energy code. A sliding scale of incentives could be pegged to certain, well-documented improvements in building performance. In turn, these investments will lead to greater utility cost savings for residents and will help create jobs. According to a June 2011 study, a reformed deduction could generate more than 77,000 jobs in construction, manufacturing and other sectors of the economy.

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