

Statement of the Residential Energy Efficient Tax Credit Industry Coalition

before the

Subcommittee on Select Revenue Measures

Committee on Ways and Means  
United States House of Representatives

on

“Framework for Evaluating Certain Expiring Tax Provisions”

June 8, 2012

As the trade associations representing manufacturers, distributors, retailers, remodelers, installers and contractors bringing energy-efficient products to homeowners, we are seeking the restoration and extension of the residential energy efficiency (25C) tax credit. The residential energy efficiency tax credit was drastically reduced at the end of 2010<sup>1</sup> and expired at the end of 2011. Our member companies actively promoted and their customers benefited from the higher tax credit levels that were in place from 2009 to 2010, sustaining jobs in our industries during the otherwise dire new home and retrofit construction downturn. Private residential investment was 2.6 percent of gross domestic product for the first quarter of 2012, well below its historical average of 5 percent. Many of the products that qualify for the 25C tax credit are manufactured—and also installed—in America, unlike alternative energy sources that have benefited from other federal incentives.

**We are seeking a robust energy efficiency tax credit for qualified products, as outlined below, of 10 percent of the purchase price up to \$1,000.** We believe that a \$1,000 tax credit is generally the minimum incentive needed to motivate consumers to improve their homes by purchasing these higher-performing products, and to do so in sizable enough numbers to positively influence residential energy consumption.

We are seeking a uniform tax credit across most product categories to minimize consumer confusion, include labor costs for all qualifying products and maintain consumer choice in the improvements they wish to make in their homes.

#### **Economic Impact of the Energy Tax Credit**

Using the 2009 IRS tax data, we can demonstrate that the net economic impacts of the 25C tax credit programs from a remodeling perspective are significant (setting aside the long-run energy efficiency benefits for homeowners).

With respect to the 25C credit for energy-efficient remodeling of existing homes, the IRS data indicates a total of \$25.1 billion of qualified expenditures in 2009. Overall, in 2009 taxpayers claimed nearly \$5.9 billion in 25C and 25D tax credits. For the two tax credits combined, **93 percent of tax credit claims were made by taxpayers who have an adjusted gross income of no more than \$200,000**, which is indicative of a middle class tax program.

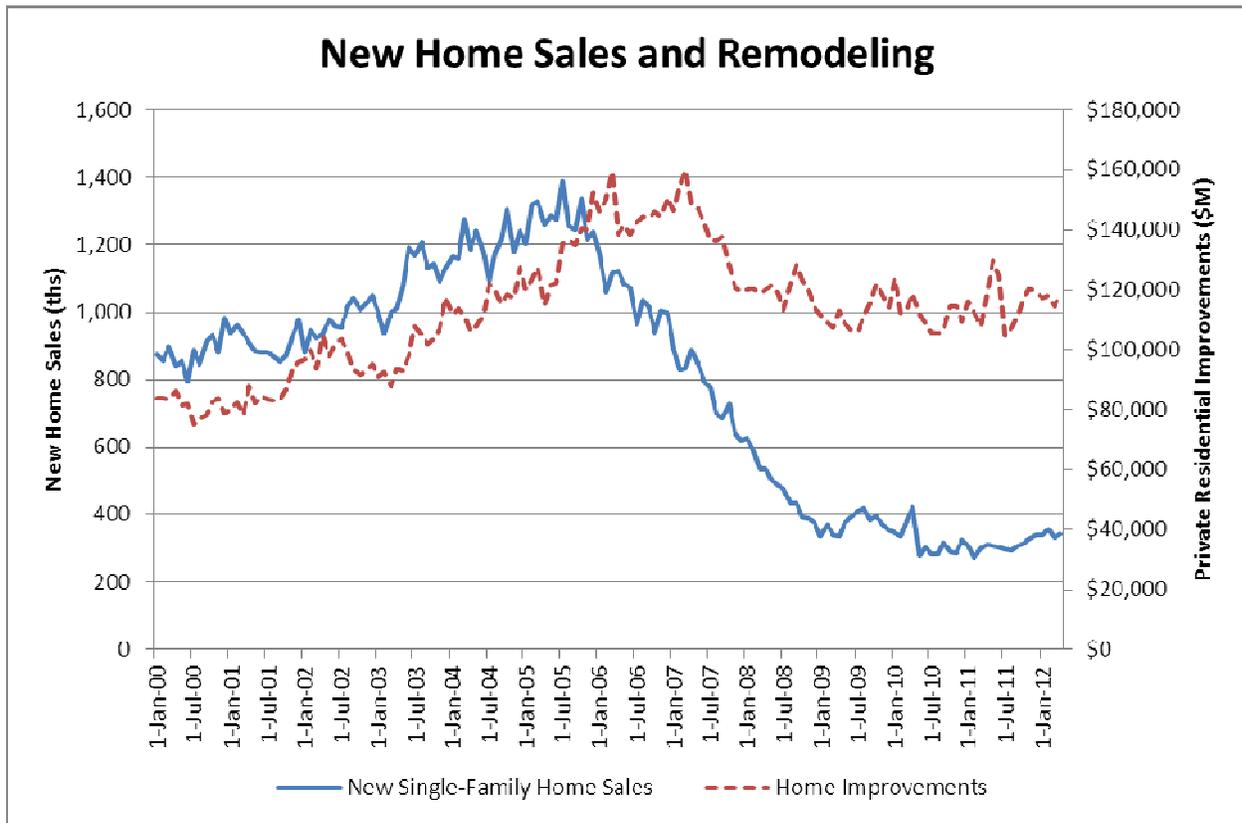
Because the tax credit in 2009 was limited to \$1,500 per taxpayer, not all of this activity generated tax credits. In fact, according to the IRS data, just a little more than 71 percent of these costs (\$5.404 billion versus potential \$7.539 billion) were allowed in the 25C calculation due to the \$1,500 limit. Moreover, due to other tax rules, only \$5.172 billion of the \$5.404 billion were allowed as realized 25C tax credits.

The following chart plots new home sales (left axis) and private residential improvements (right axis). The data indicate that remodeling expenditures fared better over the 2008 through 2011

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<sup>1</sup> Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, Sec. 710, Credit for Nonbusiness Energy Property.

period than new home sales. The tax credit program provided a floor on remodeling activity, which has declined only 26 percent since its peak compared to 75 percent for new home sales.



The first portion of the 25C credit usage is related to energy-efficient building envelope improvements, with 13 percent of the 25C claims associated with insulation, 34 percent with windows and skylights, 9 percent with doors and another 9 percent with qualified roofing materials. The second part of the credit dealt with energy-saving appliance installation, with 16 percent of the total 25C claims connected to qualified heat pumps, air conditioners, water heaters and biomass-burning stoves and fireplace inserts; 17 percent with qualified natural gas, propane, oil furnaces or hot water boilers; 3 percent with advanced main air circulating fans used with a natural gas, propane or oil furnace.

The National Association of Home Builders has developed an economic impact model that enables estimating total employment and economic income impacts from home building and remodeling.<sup>2</sup> The model used Bureau of Economic Analysis (BEA) data and BEA input-output tables to generate economic impacts by sector. The following table presents the impacts that result from \$100,000 of remodeling activity.

<sup>2</sup> <http://www.nahb.org/generic.aspx?sectionID=734&genericContentID=103543&channelID=311>  
The Direct Impact of Home Building and Remodeling on the U.S. Economy. NAHB Economics.

The jobs are measured on a full-time equivalent (FTE) basis. Thus, NAHB estimates that every \$100,000 of remodeling activity creates 1.11 jobs on an FTE basis. 48.6 percent of those jobs are in the construction and remodeling sector.

**Income and Employment Impacts of Remodeling on the U.S. Economy**

	Number of Full-time Jobs	Wages and Salaries	Proprietors' Income	Corporate Profits	Total Income
<b><i>\$100,000 Spent on Remodeling</i></b>					
<b>All industries</b>	<b>1.11</b>	<b>\$52,709</b>	<b>\$13,810</b>	<b>\$16,147</b>	<b>\$82,667</b>
Construction	0.54	\$25,573	\$6,601	\$4,232	\$36,406
Manufacturing	0.18	\$8,136	\$824	\$4,529	\$13,489
Wholesale and retail, Transportation and warehousing	0.16	\$6,432	\$849	\$2,307	\$9,588
Finance and insurance	0.02	\$1,487	\$71	\$1,459	\$3,017
Real estate and rental and leasing	0.01	\$315	\$1,652	\$758	\$2,725
Professional, Management, administrative services	0.12	\$6,970	\$2,191	\$764	\$9,924
Other services	0.09	\$3,797	\$1,623	\$2,098	\$7,518

*Source: NAHB estimates, based primarily on the data from the U.S. Bureau of Economic Analysis.*

Putting all the data together, the IRS data and the NAHB economic impact model indicate that for 2009, a total of 278,610 full-time jobs were in connection with the 25C credit. 135,540 of these jobs were in the construction and remodeling sectors. The program supported approximately \$13.2 billion in wages for these workers and \$7.5 billion in net business income.

**Conclusion**

The program has created and preserved America jobs and promoted energy efficiency by helping owners of existing homes afford higher efficiency windows, doors, HVAC systems, hot water heaters, roofing and insulation. We are deeply concerned that the loss of this incentive before the housing market recovers would lead to substantial job losses.

The residential energy efficiency tax credit has broad support across the remodeling and retrofit market. A total of 34 businesses and associations sent a letter in December 2011 to the Committee on Ways and Means supporting a robust extension of the 25C tax credit, knowing the \$1,000 level would effectively leverage consumer activity and job preservation. A copy of the letter is Included in the appendix of this statement.

As the Committee on Ways and Means evaluates the merits of the 25C tax credit, the data illustrates the program has had a powerful and positive impact on employment and extending the incentives until the housing market further stabilizes will protect American jobs.

**Supporting Industry Associations**

**Air Conditioning Contractors of America**  
**Air-Conditioning, Heating and Refrigeration Institute**  
**Asphalt Roofing Manufacturers Association**  
**Biomass Thermal Energy Council**  
**Insulation Contractors Association of America**  
**Hearth, Patio & Barbecue Association**  
**Heating, Air Conditioning & Refrigeration Distributors International**  
**Metal Contractors Association**  
**National Association of Home Builders**  
**National Association of the Remodeling Industry**  
**National Electrical Manufacturers Association**  
**National Lumber & Building Material Dealers Association**  
**National Roofing Contractors Association**  
**New England Fuel Institute**  
**Oilheat Manufacturers Association**  
**Plumbing-Heating-Cooling Contractors—National Association**  
**Pellet Fuels Institute**  
**Petroleum Marketers Association of America**  
**Retail Industry Leaders Association**  
**Roof Coatings Manufacturers Association**  
**Spray Polyurethane Foam Alliance**  
**Tile Roofing Institute**  
**Window & Door Manufacturers Association**

**For More Information Contact**

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## Appendix

# Residential Energy Efficient Tax Credit Industry Coalition

December 8, 2011

The Honorable John Boehner  
Speaker of the House  
H-232, United States Capitol  
Washington, D.C. 20515

The Honorable Nancy Pelosi  
House Minority Leader  
H-204, United States Capitol  
Washington, D.C. 20515

The Honorable Dave Camp  
Chairman, Committee on Ways & Means  
1102 Longworth House Office Building  
Washington, D.C. 20515

The Honorable Sander Levin  
Ranking Member, Committee on Ways & Means  
1139E Longworth House Office Building  
Washington, D.C. 20515

Dear Speaker Boehner, Leader Pelosi, Chairman Camp and Ranking Member Levin:

As companies and associations representing manufacturers, retailers, builders and contractors in the housing and residential energy retrofit industry, we are writing to urge your support for an extension at the \$1,000 level for the residential energy efficiency (25C) tax credit set to expire at the end of the year. The 25C tax credit creates and preserves American jobs and promotes energy efficiency by helping owners of existing homes afford higher efficiency windows, doors, HVAC systems, hot water heaters, roofing and insulation. We are deeply concerned that the loss of this incentive before the housing market recovers would lead to substantial job losses.

Residential remodeling activity spurred by the 25C tax credit in 2009 and 2010 was critical to maintaining our economic vitality. In 2009, Internal Revenue Service data indicates American taxpayers reported spending \$25.1 billion on remodeling costs associated with the tax credit. Moreover, the program supported 278,610 jobs (135,540 of which were in the construction and remodeling sectors), approximately \$13.2 billion in wages and \$7.5 billion in net business income according to analysis by the National Association of Home Builders. In addition, 25C is truly a middle-class tax credit. In 2009, over two-thirds of the households claiming the credit had adjusted gross income of \$100,000 or less.

Further, private residential investment as a percent of gross domestic product set another record low of 2.4 percent in the third quarter of 2011—in comparison to its historic average of approximately 5 percent. The 25C tax credit has provided a needed floor on remodeling activity, declining 32% since its peak compared to 76% for new home sales. It creates jobs and benefits homeowners by reducing their energy use, lowering their energy bills and improving their homes.

Again, we urge your support for a robust extension of the 25C tax credit, knowing the \$1,000 level would effectively leverage consumer activity and job preservation. We believe that the program has had a powerful and positive impact on employment and extending the incentives until the housing market further stabilizes will protect American jobs.

Thank you for your consideration. We look forward to working with you to include an extension of the residential energy efficiency credit in tax legislation before the end of the year.

Sincerely,

Air Conditioning Contractors of America  
Air-Conditioning, Heating and Refrigeration Institute  
Andersen Corporation  
A.O. Smith  
Asphalt Roofing Manufacturers Association  
Champion Window Manufacturing Company  
Council of North American Insulation Manufacturers Association  
Fortune Home and Security  
Guardian Industries  
Heating, Air Conditioning & Refrigeration Distributors International  
The Home Depot, Inc.  
Ingersoll Rand  
Insulation Contractors Association of America  
JELD-WEN, inc.  
Lennox International, Inc.  
Lowe's Companies, Inc.  
National Association of Home Builders  
National Association of Manufacturers  
National Association of the Remodeling Industry  
National Electrical Manufacturers Association  
National Lumber and Building Material Dealers Association  
National Roofing Contractors Association  
New England Fuel Institute  
Pella Corporation  
Petroleum Marketers Association of America  
Plumbing-Heating-Cooling Contractors—National Association  
Regal Beloit  
Retail Industry Leaders Association  
Rheem Manufacturing Company  
Roof Coatings Manufacturers Association  
Spray Polyurethane Foam Alliance  
Tile Roofing Institute  
United Technologies Corporation  
Window and Door Manufacturers Association

cc: House Committee on Ways and Means members