



ENERGY EFFICIENCY TAX INCENTIVE

THE NEED FOR LABOR AND INSTALLATION TO BE INCLUDED IN 25C

Efficiency First Request to Congress: Explicitly include the ability to incorporate labor and installation costs in the 25C tax incentive, particularly as it relates to the installation of insulation and home energy sealants.

The History

When the U.S. Congress passed the Energy Policy Act of 2005 an important incentive was provided for consumers to upgrade the efficiency of their home by receiving a modest tax credit for qualified home energy-efficiency improvements. In addition to windows, the credit included insulation material or system (including any vapor retarder or seal to limit infiltration). This credit is set to expire at the end of 2010.

The Original Intent

The intent of the 25C provision was to advance home energy-efficiency upgrades by providing a monetary incentive through the tax code. This incentive would help consumers overcome the initial upfront cost of installing high-efficiency technology in their homes. As a result of the home improvements, the economy would be helped as consumers would save money on their energy bills and contractors and manufacturers would be supported by the installations. In addition, the energy savings would provide additional public goods through pollution abatement and grid reliability.

Problem: The upfront cost barrier for installing insulation and air sealants is primarily in the labor costs and not the material costs. While the material costs are not significant, many consumers find the task of sealing their homes daunting (and often do it incorrectly if untrained).

IRS Position

In the Internal Revenue Service (IRS) Bulletin No. 2006-pm March 13, 2006, the IRS offers specific clarification of the 25C tax incentive for qualified energy efficiency improvements. In this clarification, the IRS notes: "*Installation Costs.* With respect to Eligible Building Envelope Components, the credit is allowed only for amounts paid or incurred to purchase the components. The credit is not allowed for amounts paid or incurred for the onsite preparation, assembly, or original installation of the components."

Current Misperception

There is a misperception by some policymakers that home retrofit contractors increase the cost of the insulation they install while decreasing their labor costs in order to allow the consumers to take a larger rebate and thus use federal dollars to offset the overall costs of a home energy retrofit. This is not a correct assumption. While there may be contractors who do this, this is NOT the general practice of the home performance contracting community and it is not supported by their trade association Efficiency First. In fact, Efficiency First is actively requesting that the U.S. Congress explicitly include labor in any extension to 25C to ensure that the full intent of the 2005 EPACT is carried out.

The Solution

Include the 25C extension as currently drafted by Senators Bingaman and Snowe in any extenders package this year. The Bingaman-Snowe draft includes labor and installation costs in the 25C tax credit. Efficiency First recommends that this provision move quickly to become law.