

Sustainability Provisions in the Inflation Reduction Act

The Inflation Reduction Act, which was recently passed and signed into law by President Biden, includes an array of resources and tax incentives to help homeowners and commercial building owners make their properties more energy efficient. Studies indicate that if property owners across the U.S. weatherized their buildings and installed high-efficiency heating, cooling, and water heating equipment, they would save billions of dollars on energy costs and reduce carbon emissions. With the help of NAR members and these incentives, owners of real estate will begin to put these systems in place and realize these benefits.

The bill extends the Residential Clean Energy Tax Credit through 2034 for homes that produce their own energy through residential solar, wind, geothermal, and biomass. It maintains the previous credit rate but adjusts the project dates: Applies a 30% credit for projects started between 2022 and 2032. The credit decreases to 26% for projects started in 2033 and 22% for projects started in 2034.

The bill also extends the previous tax credit for energy efficiency home improvements through 2032 and increases the credit from 10% to 30%, starting in 2023. It replaces the previous lifetime cap on these credits with a \$1,200 annual credit limit, including \$600 for windows and \$500 for doors. The increases are limited to \$2,000 for heat pumps and biomass stoves and boilers.

The new law also extends and modifies a tax credit for new energy efficient homes as well as provides an enhanced tax deduction to incentivize energy efficiency improvements to existing commercial buildings.

The HOMES program in the bill will provide \$4.3 billion in rebates ranging in size from \$2,000 to \$8,000 for homeowners who make whole-house energy upgrades and achieve significant energy savings. The High-Efficiency Electric Home program will make \$4.5 billion available in rebates ranging in amounts from \$840 to \$8,000 for homeowners to install high-efficiency heat pumps, heat pump water heaters, induction stoves, and other electric equipment, as well as to make weatherization improvements. Rebates for income-qualified households will be significantly higher, and the bill provides an incentive for contractors to provide services in disadvantaged neighborhoods.

The bill also includes agricultural and forestry provisions, including financial and technical assistance for private landowners to maintain and improve existing conservation systems and adopt additional conservation activities. For example, the bill provides \$1.3 billion for conservation technical assistance provided through the Natural Resource Conservation Service to ensure access to the tools and information farmers and ranchers need to carry out climate-smart practices.

Additional information on these programs is provided below:

Residential Energy Efficiency

Credit for Residential Clean Energy

- Extends the current tax credit through 2034 for residential solar, wind, geothermal, and biomass fuel.

- Maintains the previous credit rate but adjusts the project dates. Applies a 30% credit for projects started between 2022 and 2032. Credit decreases to 26% for projects started in 2033 and 22% for projects started in 2034.
- Expands eligibility to battery storage technology.

Credit for Energy Efficiency Home Improvements

- Extends the current tax credit for energy efficiency home improvements through 2032.
- Increases credit amount from 10% to 30%.
- Replaces the previous lifetime cap on these tax credits with a \$1,200 annual credit limit, including \$600 for windows and \$500 for doors. Increases the limit to \$2,000 for heat pumps and biomass stoves. Removes eligibility on roofs but now includes air sealing insulation.
- Updates language to reflect advances in energy efficiency.
- Expands the tax credit to cover the cost of home energy audits up to \$150 and electrical panel upgrades up to \$600.
- Second homes now qualify. Under the prior law, only a primary residence was eligible.

New Energy Efficient Home Tax Credit Extension/Modification

- Extends the current-law tax credit for eligible contractors for building and selling qualifying energy-efficient homes through 2032.
- Starting in 2022, a \$2,500 tax credit is available for new homes that meet certain Energy Star efficiency standards, and a \$5,000 credit is available for new homes that are certified as zero-energy ready homes.
- Multi-family dwellings that meet certain Energy Star efficiency standards are eligible for a \$500 tax credit per unit, with a \$1,000 per unit tax credit available for eligible zero-energy ready multifamily dwellings. These credits are increased to \$2,500 and \$5,000, respectively, if Wage and Workforce Requirements are met with regard to the laborers and mechanics employed by contractors and subcontractors in the construction process.

Enhanced Tax Deduction for Energy Efficient Commercial Buildings

- Updates energy efficiency requirements by requiring efficiency to increase by more than 25%.
- Deduction begins at 50 cents per square foot and increases by 2 cents for each percentage point by which the improvements reduce energy and power costs, with a maximum deduction of \$1 per square foot.
- For projects that meet Wage and Workforce Requirements, the base amount is \$2.50, which increases by 10 cents for each percentage point increase in energy efficiency, with a maximum deduction of \$5.00 per square foot.
- The maximum deduction amount is the total deduction that can be claimed on a building less deductions claimed for the building in the preceding three years.



- Building owners making energy-efficiency retrofits that are part of a qualified retrofit plan on a building that is at least 5 years old are able to deduct their adjusted basis in the property, as long as that amount doesn't exceed a per-square foot value determined on the basis of energy usage intensity.
- A tax-exempt entity is allowed to allocate the deduction to the designer of the building or retrofit plan.

Home Energy Performance-Based Whole House Rebates (HOMES)

- \$4.3 billion through 2031 to DOE to help state energy offices implement a HOMES rebate program to provide rebates to homeowners and aggregators for whole-house energy saving retrofits. Additional funding can be provided to low- and moderate-income individuals, who earn less than 80% of the area median income.

High-Efficiency Electric Home Rebate Program

- \$4.3 billion through 2031 for grants from DOE to States and Tribes to implement a high-efficiency electric home rebate program.
- Provides up to \$14,000 per household including \$8,000 for heat pumps, \$1,750 for heat pump water heaters, and \$840 for electric stoves.
- Also includes rebates for improvements to electrical panels or wiring and home insulation or sealant.
- Eligible recipients must fall below 150% of the area median income.

Agriculture Programs

Environmental Quality Incentives Program (EQIP)

- \$8.45 billion for grants for practices or enhancements that directly improve soil carbon storage or decreased emissions of nitrous oxide or other GHGs, prioritizing activities that reduce enteric methane emissions.
- This includes financial and technical assistance resources for producers and landowners to plan and install structural, vegetative, and land management practices on eligible lands to alleviate natural resource concerns.

Conservation Stewardship Program (CSP)

- \$3.25 billion for financial and technical assistance for producers to maintain and improve existing conservation systems and to adopt additional conservation activities comprehensively across a producer's entire operation.
- Eligible practices or enhancements will directly improve soil carbon storage or decrease emissions of nitrous oxide or other GHGs, allowing for aggregation of activities.

Agricultural Conservation Easement Program (ACEP)

- \$1.4 billion is provided for this program which enables financial and technical assistance through agricultural land easements that limit nonagricultural uses on productive farm or grass lands, and wetland reserve easements that protect and restore wetlands.

Regional Conservation Partnership Program (RCPP)

- \$4.95 billion provided for financial and technical assistance for state, multistate, or watershed-scale projects, establishing partnership opportunities that optimize federal conservation funding for specific areas and resource concerns.

Conservation Technical Assistance (CTA)

- \$1.3 billion for conservation technical assistance provided through the NRCS to ensure broader and more equitable access to the tools and information farmers and ranchers need to carry out climate-smart practices.
 - This program provides conservation planning and implementation assistance through field staff in nearly every county in the United States and its territories.
 - \$300 million allocated for NRCS to cooperate with technical service providers and other partners to collect field-based data. This information will be used to evaluate the carbon sequestration and GHG emissions reduction results of the practices supported by CTA.

Forestry Programs

National Forest System Restoration and Fuels Reduction Projects

- \$1.8 billion for the National Forest System (via U.S. Forest Service) to support wild-fire risk reducing activities within wildland-urban interface including eligible biomass removal.
- \$350 million for vegetation management, environmental reviews, and inventory of old-growth forests on National Forest System land.

Grants for Non-Federal Forest Landowners

- \$400 million in competitive grants and cost share from the U.S. Forest Service to support the participation of forest landowners that are underserved or own less than 2,500 acres in forest resilience activities and climate mitigation markets.
- Additional provisions are discussed in the Biomass, Carbon Removal, and Forest Management section above.

State and Private Forestry Conservation Programs

- \$700 million in competitive grants to states through the Forest Service Forest Legacy Program to conserve environmentally important forest areas that are threatened by conversion to non-forest uses.
- \$1.5 billion in competitive grants through the Urban and Community Forestry Assistance program for tree-planting and related activities in urban areas.