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# 45L Federal Energy Efficient Tax Credit

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# About CHEERS

CHEERS (ConSol Home Energy Efficiency Rating Services, Inc.) is a HERS provider approved by the CEC on February 13th, 2013.

As an affiliate of ConSol, CHEERS is backed by 30 years of experience, knowledge and management who are dedicated to making the “new” CHEERS a more robust, reliable and user-friendly service provider.

Leadership: Mike Hodgson, President

- Chairman CBIA Energy Subcommittee
- Chairman NAHB Energy Efficient Buildings Tax Credit Working Group
- NAHB Energy and Green Building Subcommittees member
- Founding director of the CABEC





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# Qualifying Residence

## **\$2,000 per SF or MF dwelling unit**

1. Located in the United States
2. Single family and multi-family dwelling units, 3 stories or less
  - Apartment Complexes (each unit)
  - Condominiums (each unit)
  - Colleges and university apartments
  - Single Family Homes
  - Construction includes renovations and rehabilitation
3. Completed after August 8, 2005 and then sold or leased/rented between January 1, 2011 and December 31, 2013. ! 2 year extension in process for 2014-15.





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# Eligibility Requirements

1. Dwelling units must be 50% above the 2006 International Energy Conservation Code
2. Software accredited by an equivalent rating network (California Energy Commission) is used to generate the energy savings calculations
3. Energy features are inspected and verified by a certified HERS rater (45L Eligible Certifier)
4. 45L certificate verifying certified software, % above code, and signed by HERS rater company who inspected & verified the energy features



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# Eligibility Certifier

The certified HERS rater/HERS company who inspected the project is the only eligible certifier who can provide signed 45L FTC certificates to builders.

Per IRS Notice 2008-36, Section 3.04 the eligible certifier must provide:

*“A statement by the eligible certifier that field inspections of the dwelling unit (or of other dwelling units under the sampling protocol described below) **performed by the eligible certifier** during and after the completion of construction have confirmed that all features of the home affecting such heating and cooling energy consumption comply with the design specifications provided to the eligible certifier.”*



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# IRS Eligible Software

## Approved Software:

1. EnergyGauge
2. REM/Rate
3. **EnergyPro 4.7** (Distributed by CHEERS)
  - CEC approved January 24, 2014 – CA projects only
  - Incorporates energy credits not available in EnergyGauge, RemRate: Verified Refrigerant Charge, Airflow, Fan Watt, AC Size, EER
  - EnergyPro v4.7 is the only approved software for California dwelling units to qualify for 45L credit.

*! Previous versions of EnergyPro 45L software (4.6, 4.6.1) have been decertified and are no longer allowed to be used in California.*



# A Brief History of EPro 45L Software

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- Early 2013 RESNET required EnergySoft to remove from EnergyPro 4.6 any credit for HERS Measures shown on the HERS tab for the HVAC systems:
  - > Verified Refrigerant Charge, Airflow, Fan Watts, AC Size, EER
- July 2013 EnergySoft compiles and releases EnergyPro 4.6.1
  - > CA projects unable to qualify
- Jan 24, 2014 At the request of industry, the CEC (equivalent rating network) approved EnergyPro 4.7 for use in California, which incorporates the energy credits removed in v4.6.1



# EnergyPro 4.7 CF-1R

EnergyPro Compliance Method	Climate Zone 13 DOE Climate Zone								Field Check/Date
Normalized (kBtu/sf-yr)	Standard Design	Facing North	Margin	Facing East	Margin	Facing South	Margin	Facing West	Margin
Space Heating	7.36	2.96	4.40	2.94	4.43	2.95	4.42	2.97	4.39
Space Cooling	21.50	7.03	14.47	7.77	13.73	7.04	14.46	7.67	13.84
Fans	1.25	0.56	0.69	0.61	0.63	0.56	0.69	0.61	0.64
Domestic Hot Water	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Pumps	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Totals</b>	<b>30.11</b>	<b>10.55</b>	<b>19.56</b>	<b>11.32</b>	<b>18.79</b>	<b>10.55</b>	<b>19.56</b>	<b>11.25</b>	<b>18.87</b>
Envelope / Total Percent better:		46.0 %	65.0 %	42.1 %	62.4 %	46.0 %	65.0 %	42.5 %	62.6 %

**QUALIFIES FOR TAX CREDITS - HERS VERIFICATION REQUIRED**

<b>Building Type:</b>	<input checked="" type="checkbox"/> Single Family	<input type="checkbox"/> Addition	<b>Total Conditioned Floor Area:</b>	3,028 ft <sup>2</sup>	
	<input type="checkbox"/> Multi Family	<input type="checkbox"/> Existing + Add/Alt	<b>Existing Floor Area:</b>	n/a ft <sup>2</sup>	
<b>Building Front Orientation:</b>	All Four Orientations		<b>Raised Floor Area:</b>	231 ft <sup>2</sup>	
<b>Fuel Type:</b>	Natural Gas		<b>Slab on Grade Area:</b>	1,631 ft <sup>2</sup>	
<b>Fenestration:</b>			<b>Average Ceiling Height:</b>	9.9 ft	
Area:	536 ft <sup>2</sup>	Avg. U:	0.30	<b>Number of Dwelling Units:</b>	1.00
Ratio:	17.7 %	Avg. SHGC:	0.25	<b>Number of Stories:</b>	2

BUILDING ZONE INFORMATION						
Zone Name	Floor Area	Volume	# of Units	Zone Type	Thermostat Type	Vent Hgt. Area
Central HVAC	3,028	29,862	1.00	Conditioned	Setback	8 n/a

OPAQUE SURFACES											
Type	Frame	Area	U-Fac.	Insulation Cav.	Act. Cont.	Act. Azm.	Tilt	Gains Y / N	Condition Status	JA IV Reference	Location / Comments
Roof	Wood	1,670	0.020	R-49	R-0.0	0	0	✓	New	01-A19	Home
Roof	Wood	50	0.048	R-19	R-0.0	0	0	✓	New	01-A14	Home
Wall	Wood	185	0.072	R-13	R-4.0	0	90	✓	New	09-A3	Home
Wall	Wood	45	0.072	R-13	R-4.0	315	90	✓	New	09-A3	Home
Wall	Wood	45	0.072	R-13	R-4.0	45	90	✓	New	09-A3	Home
Wall	Wood	336	0.072	R-13	R-4.0	90	90	✓	New	09-A3	Home
Wall	Wood	25	0.057	R-19	R-4.0	90	90	✓	New	09-A5	Home
Wall	Wood	289	0.072	R-13	R-4.0	180	90	✓	New	09-A3	Home
Wall	Wood	107	0.072	R-13	R-4.0	270	90	✓	New	09-A3	Home





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# Who Can Claim the Credit

The builder/developer of the dwelling units: the “entity” that owns the structure when it was built and financed its construction qualifies for the credit.

If this “entity” is owned by multiple investors, the credit is passed through to each investor.

## **Do low income projects qualify for the 45L FTC?**

The issue is the unit’s energy efficiency not the occupant. Multi-family structures that qualify for the low income housing credit can also qualify for the energy tax credit.

> Please note a qualifying entity cannot sell the 45L tax credit to another entity.

## **Can non-profit builders qualify for the 45L FTC?**

Non-profits are often partners in an entity that builds multi-family structures. Whereas non-profits do not pay taxes and therefore cannot use these credits, the other for-profit shareholder’s & partners of the entity most certainly can.



# 45L Rehabs

**Q: Do retrofits qualify for the 45L federal tax credit?**

**A: Yes. Section 45L defines “new construction” as including “substantial rehabilitation.”**

Section 45L defines “new construction” as including “substantial rehabilitation.” So if substantial rehab took place, then the housing unit can count as new construction.

Section 47(c)(C) provides a definition [used for the historic housing rehab tax credit]. For most properties, the following definition requires rehab expenditures in excess of the adjusted basis (typically cost basis minus depreciation):

**(C) Substantially rehabilitated defined**

- (i)** In general For purposes of subparagraph (A)(i), a building shall be treated as having been substantially rehabilitated only if the qualified rehabilitation expenditures during the 24-month period selected by the taxpayer (at the time and in the manner prescribed by regulation) and ending with or within the taxable year exceed the greater of—
- (I)** the adjusted basis of such building (and its structural components), or
  - (II)** \$5,000.

The adjusted basis of the building (and its structural components) shall be determined as of the beginning of the 1st day of such 24-month period, or of the holding period of the building, whichever is later. For purposes of the preceding sentence, the determination of the beginning of the holding period shall be made without regard to any reconstruction by the taxpayer in connection with the rehabilitation.

- (ii)** Special rule for phased rehabilitation In the case of any rehabilitation which may reasonably be expected to be completed in phases set forth in architectural plans and specifications completed before the rehabilitation begins, clause (i) shall be applied by substituting “60-month period” for “24-month period”.



# 45L Overview

## General business credit:

- Builders and developers can claim this credit retroactively for up to three years (2011, 2012 and 2013) from the date of tax filing.
- If unused, carry forward 20 years

## Do all units in a project need to qualify for the builder to get the credit?

No. The 45L FTC is not like utility rebate programs which require the entire project to qualify, the tax credit is per dwelling unit (per address).

## Tax form 8908

Form <b>8908</b>		<b>Energy Efficient Home Credit</b>		OMB No. 1545-1979	
Department of the Treasury Internal Revenue Service		▶ Attach to your tax return.		<b>2012</b>	
		▶ Information about Form 8908 and its instructions is at <a href="http://www.irs.gov/form8908">www.irs.gov/form8908</a> .		Attachment Sequence No. 153	
Name(s) shown on return				Identifying number	
1a Enter the total number of qualified energy efficient homes including qualified energy efficient manufactured homes meeting the 50% standard that were sold or leased to another person for use as a residence during the tax year (see instructions)				1a	
b Multiply line 1a by \$2,000				1b	
2a Enter the total number of qualified energy efficient manufactured homes meeting the 30% standard that were sold or leased to another person for use as a residence during the tax year (see instructions)				2a	
b Multiply line 2a by \$1,000				2b	
3 Energy efficient home credit from partnerships and S corporations				3	
4 Add lines 1b, 2b, and 3. Partnerships and S corporations, report this amount on Schedule K. All others, report this amount on Form 3800, line 1p				4	



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# 45L History

Tax Act	Energy Policy Act of 2005	Energy Improvement and Extension Act of 2008	Tax Extenders Act of 2009	Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010	Taxpayer Relief Act of 2012	Expiring Provisions Improvement Reform and Efficiency. (EXPIRE) Act
Enacted	8/8/2005 Effective: 1/1/2006	10/3/2008	12/9/2009	12/17/2010	1/2/2013	<b>TBD</b>
IECC	2003	2003	2003	2003	2006	<b>2006</b>
Expiration	12/31/2007	12/31/2009	12/31/2010	12/31/2011	12/31/2013	<b>12/31/2015</b>
IRS Notice: Guidelines & Definitions	2006-27 Published 2/22/2006 2008-35 Published 3/24/2008					



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# How Would CA Builders Know About the 45L?

CHEERS has been working with CBIA to get the message out to CA builders/developers about the 45L tax credit in order to ensure that builders/developers are taking advantage of this very accessible builder tax credit.

3/4/2014 CBIA CEO Report:

9/8/2014 CBIA Report



March 4, 2014

## CEC Assists Industry in Accessing \$2,000 Tax Credit

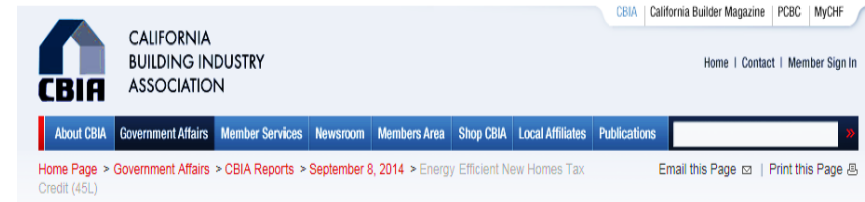
Good Afternoon CBIA Member:

For the past 18 months, CBIA staff has been working with Energy Commission staff and leadership in an effort to facilitate access to a federal tax credit by California builders. These efforts proved successful last month when the CEC certified the use of updated software to assist builders in gaining access to the federal Energy Efficient New Homes Tax Credit.

Specifically, builders who went beyond California's minimum energy efficiency standards in 2011-2013 may be eligible for a federal tax credit of \$2,000 per home or apartment constructed during that time period. We hope you will keep reading to learn more about how you may be able to qualify for this tax credit.

### The Back Story

The federal Energy Efficient New Homes Tax Credit ("45L") applies to single family and multi-family dwelling units (three stories or less) that were sold or leased between January 1, 2011 and December 31, 2013. Specifically, if any of these dwellings exceeded the 2006 Edition of the International Energy Conservation Code (IECC) heating and cooling budgets by 50%, there are eligible for a \$2,000 tax credit.



## Energy Efficient New Homes Tax Credit (45L)

CBIA working with the CEC, CHEERS and EnergySoft has recently restored a valuable tax credit to California builders and developers. Builders who build beyond California's Building Energy Efficiency Standards (Title 24, Part 6) in 2011-2013 may be eligible for a federal tax credit of \$2,000 per home or apartment constructed during that time period.

The federal Energy Efficient New Homes Tax Credit ("45L") applies to single family and multi-family dwelling units (three stories or less) that were sold or leased between January 1, 2011 and December 31, 2013. Specifically, if any of these dwellings exceeded the 2006 Edition of the International Energy Conservation Code (IECC) heating and cooling budgets by 50%, they are eligible for a \$2,000 tax credit.

However, California does not use the national model energy code. Instead, the CEC has been adopting its "California-only" energy code for over three decades. The CEC's energy code (Title 24, Part 6) is significantly more stringent than the national code which therefore makes the 45L tax credit very accessible to California builders. Builders and developers can claim this credit retroactively for up to three years (2011, 2012 and 2013).



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# 45L Certification Process

- 1) Contact **CHEERS** to request EnergyPro FTC software package v4.7
  - > No up front software cost
  - > You do not need to be a CHEERS rater to participate in the CHEERS 45L program
- 2) Model plans in EnergyPro v4.7
- 3) Complete CHEERS Client Tax Credit Worksheet (CTCW) provided by CHEERS
- 4) Email to CHEERS the EnergyPro v4.7 CF1R files and a completed CTCW that lists each qualifying lot
- 5) CHEERS will review and QC the inputs for accuracy and then provide a 45L FTC project summary list of qualifying lots and certificates for each qualifying lot
  - Each CHEERS 45L FTC certificate will need to be signed by the eligible certifier from the HERS rating company.
5. HERS rater will provide signed certificates to builder.
6. Builder files tax form 8908.



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# CHEERS 45L Support

CHEERS is here to help you to understand and navigate the 45L FTC certification process including:

- Full review of any project at no cost to you - CHEERS will do all the upfront work, savings you time and money! If a project does not qualify we will work with you to see what we can do to help qualify the project.
- EnergyPro 4.7 software support
- Sales & Marketing support

**Please let us know what we can do to support you and we are happy to help!**