

# The Inflation Reduction Act

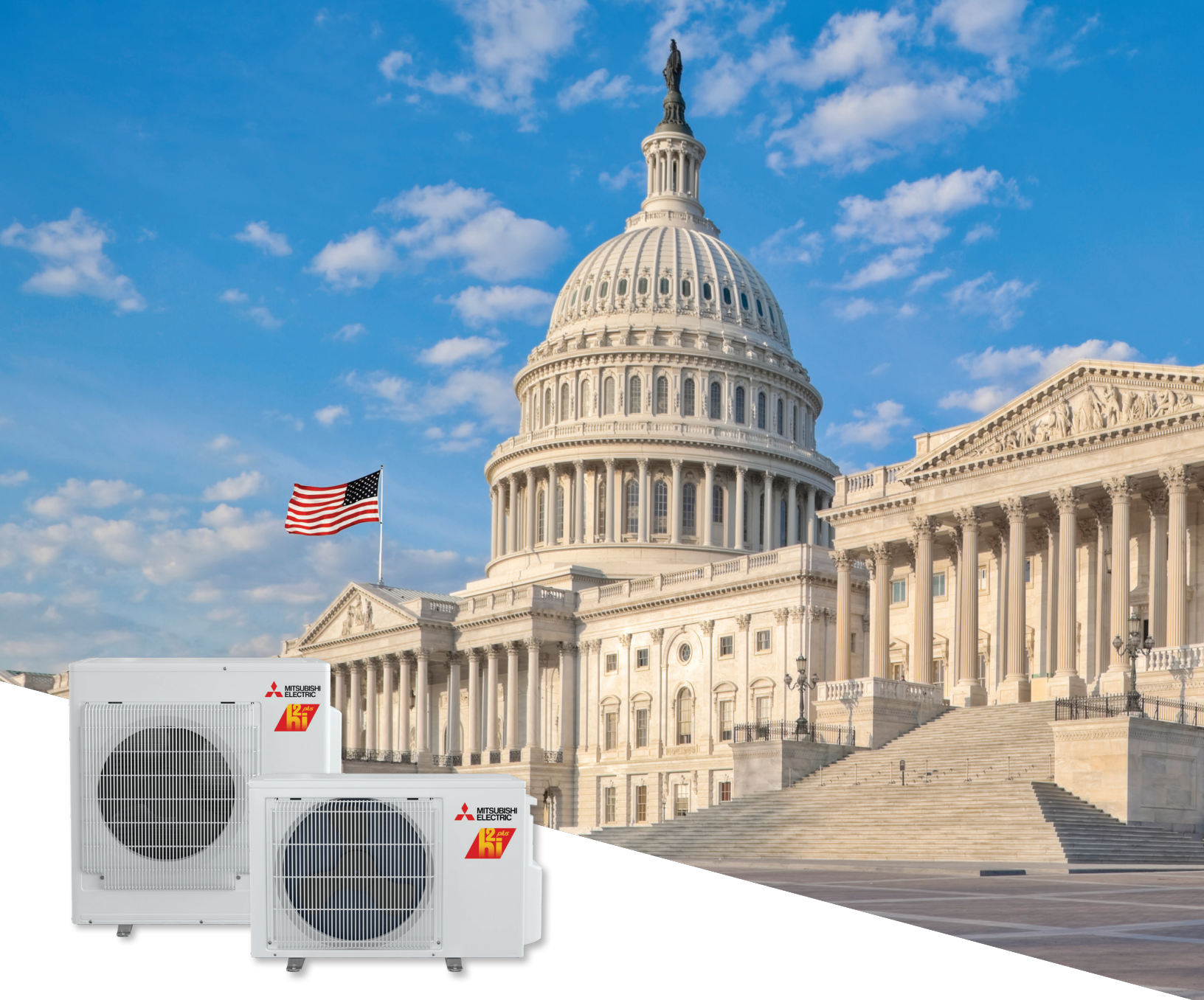
Unprecedented opportunities for the HVAC Industry with variable-capacity heat pumps



MITSUBISHI ELECTRIC TRANE HVAC US







## What is the Inflation Reduction Act?

The Inflation Reduction Act of 2022 (IRA) is the largest ever climate investment by the Federal Government in American history, projected to reduce greenhouse gas (GHG) by 31-44% below 2005 levels by 2030. The IRA will also bring energy bill relief to U.S. households by incentivizing the adoption of more efficient, all-electric appliances. Importantly, the IRA fully recognizes the key role of highly efficient, variable-capacity heat pumps in slashing domestic GHG emissions and lowering energy costs for Americans. In fact, at least 87% of U.S. households, 104.7 million, could save \$37.3 billion a year on energy bills if they were using modern, high-performance heat pumps and water heaters.\*

The programs with the biggest direct impact on variable-capacity, all-climate heat pump adoption are the High-Efficiency Electric Home Rebate Program (HEEHRP), HOMES Rebate Program, and the extension and enhancement of the 25C tax credit. These programs will create unprecedented growth opportunities for METUS, our distributors, and our contractors. This brochure provides an overview of these programs, and others, that you'll want to become familiar with.

\*Rewiringamerica.org

# Residential Programs Benefitting U.S. Homeowners

## Energy Efficient Home Improvement (25C) Tax Credit Details

- Begins with tax year 2023 (January 1, 2023), claim credit on your 2023 taxes.
- Up to \$600 maximum per item: breaker panel, insulation, fossil fuel systems (meeting elevated efficiency limits) with maximum of \$1,200 tax credit.
- Additionally, a separate cap of 30% up to \$2,000 is applicable for the category of heat pumps and heat pump water heater installations.
  - The heat pump system must meet or exceed the highest performance tier, not including any advanced tier, set by the Consortium for Energy Efficiency (CEE).
- Resets every year, so households may claim on any installations completed during the tax year for any, and each, year through 2032.
- Households must have adequate tax liability to offset.

## HOMES Rebate Program

- Likely to begin late fall of 2023
- Provides funding to DOE for state energy offices (\$4.3 billion) to develop and implement a rebate program to homeowners and aggregators for whole-house energy saving retrofits.
- Based on modeled energy savings (measured in kWh, or kWh equivalent) for single and multifamily.
- Potential rebate levels:
  - Homes with energy reduction of 20% are eligible for maximum rebate of \$2,000, or half the cost of the retrofit project (whichever is less).
  - Homes with energy reduction of 35% are eligible for maximum rebate of \$4,000.
  - Rebates are double for lower income homeowners or the owner of multifamily building with lower income tenants (<80% of Area Median Income).

# Residential Program Benefitting Builders and Contractors

## New Energy Efficient Home Tax Credit (45L) for New Construction

Eligibility: Contractors that build and sell homes meeting specified energy efficiency requirements.

- **Single Family Homes:** \$2,500 for homes that meet ENERGY STAR standards; \$5,000 for zero energy ready homes.
- **Multifamily Dwellings:** \$500 per unit that meets ENERGY STAR standards; \$1,000 per unit for zero energy ready units.
- **Multifamily Dwellings:** \$2,500 per unit that meets ENERGY STAR standards; \$5,000 per unit for Zero Energy Ready units (condition: laborers and mechanics employ contractors and subcontractors that pay prevailing wages.)



25C

A 10-year program providing tax credit of 30%, up to \$2,000, for qualifying heat pump installation



HOMES

**Single Family Homes:** Homes with energy reduction of 35% are eligible for maximum rebate of \$4,000



HOMES

**Based on modeled energy savings** for single and multifamily



45L

**Multifamily Dwellings:** \$500 per unit for ENERGY STAR standards; \$1,000 per unit for zero energy ready homes



45L

**Multifamily Dwellings:** \$2,500 per unit for ENERGY STAR standards; \$5,000 per unit for zero energy ready homes (conditional)



# Residential Program Benefitting U.S. Homeowners

IRA



Allocates **\$8.8 billion in grants** to states and tribal governments for home energy improvement projects **including point-of-sale heat pump rebates**

IRA



Projected to **reduce greenhouse gas by 31% to 44%** below the 2005 levels by 2030

HEEHRP



Single-home **heat pump cost offset** may be as high as **\$8,000** per participating home

HEEHRP



**ENERGY STAR®** will be the criteria to qualify heat pump systems for HEEHRP

## High Efficiency Electric Home Rebate Program (HEEHRP)

- Likely to begin in late fall of 2023
- Allocates \$4.5 billion in grants to states and tribal governments for home energy improvement projects including point-of-sale heat pump rebates.
- 10-year program, administered through State Energy Offices.
  - Parameters of state-administered programs may vary.
- Designed to support low-to-moderate income (LMI) households.

Example:

- Households making up to 80% of area median income are eligible to receive a 100% rebate of up to \$8,000 on the cost of heat pump installation dollar-for-dollar.
- Moderate-income households (making 80-150% of area median) are eligible for a 50% rebate up to the same limits.
  - (E.g., To claim up to the cap of \$8,000, must spend \$16,000 on heat pump installation.)
- Households with incomes above 150% of area median are not eligible.
- Single-home maximum cost offset is \$14,000.
- Caps on rebates per qualified equipment type:
  - **\$8,000 for a heat pump.**
  - \$1,750 for a heat pump water heater.
  - \$1,600 for insulation, air sealing, and ventilation.
  - \$2,500 for electric wiring.
  - \$4,000 for an electric load service center upgrade.
  - \$840 for a stove, cooktop, range, oven, or heat pump clothes dryer.
- Up to a \$500 rebate may be available for contractors per heat pump installation.
- ENERGY STAR® will be the criteria to qualify heat pump systems.
- HEEHRP and HOMES grant funds cannot be used to double pay for the same measure within any home.







# Commercial Program Benefitting Building Owners and Architects

## Energy Efficient Commercial Building Deduction (179D) Changes

- Beginning January 1, 2023, the deduction will be increased.
- Minimum Energy Reduction (ER) will be lowered from 50% to 25% compared to the most recent ASHRAE Standard 90.1, determination no later than four years prior to the placed-in-service date.
- Tax deduction levels:
  - \$.50 per square foot, plus \$.02 for each percentage point above 25% ER, not to exceed \$1.00 per square foot.
  - “Prevailing wage” provision: taxpayers can claim the bonus deduction for \$2.50 per square foot, plus \$.10 per square foot for each percentage point above 25% ER, not to exceed \$5.00 per square foot if the prevailing wage requirement is met (any laborers, workers, contractors, and subcontractors who worked on the project were paid wages not less than base wages determined by local labor authorities and applicable use of certified Apprentice Programs).
  - The Act introduces new qualified retrofit plan qualifications and removes partial benefit allowances.
  - 179D’s expansion will allow 179D deductions to be allocated to any non-profits, tribal properties, and REITs, and it includes the existing provision for publicly funded projects.

Provision	New IRC Section 179D Effective from January 1, 2023	Previous IRC Section 179D Effective from January 1, 2006-December 31, 2022
Eligibility	<ul style="list-style-type: none"> <li>• Commercial building owners</li> <li>• Designers of buildings owned by:               <ul style="list-style-type: none"> <li>- Government entities</li> <li>- Not-for-profit organizations</li> <li>- Churches and other religious organizations</li> <li>- Tribal organizations</li> <li>- Not-for-profit schools and universities</li> </ul> </li> <li>• REITs</li> </ul>	<ul style="list-style-type: none"> <li>• Commercial building owners</li> <li>• Designers of buildings owned by government entities</li> </ul>
Tax Deduction Range	<b>Base Deduction:</b> Sliding scale of 50 cents/sqft for energy savings of 25% and up to \$1/sqft for energy savings of 50% or greater <b>Bonus Deduction:</b> Sliding scale of \$2.50/sqft for energy savings of 25% and up to \$5/sqft for energy savings of 50% or greater	63 cents/sqft - \$1.88/sqft per eligible system
Deduction Cap	A three-year cap that allows IRC Section 179D to be claimed on buildings if the previous full deduction claim occurred more than three taxable years ago	Since 2006, there’s been a lifetime cap of \$1.80/sqft or \$1.88sq/ft with inflation adjustment
Technical Requirements	ASHRAE standard in effect from four years prior to completion of construction	ASHRAE standard in effect from two years prior to start of construction
Bonus Deduction	<ul style="list-style-type: none"> <li>• Meet local prevailing wage</li> <li>• Meet apprenticeship percentage hours for up to 15% of labor hours</li> </ul>	Not applicable

# Answers to Common Questions

**Generally, when do the incentive programs begin?**

Some programs started on January 1, 2023, especially the tax credits and deductions. The 25C tax credit is in place today (at \$500 max), but the expansion starts for projects billed as of January 1, 2023. The HEEHRP rebates will possibly be ready in certain states in late fall of 2023.

**Will each state operate the programs differently?**

States will have to adhere to the criteria in the law (i.e. ENERGY STAR®, CEE standards) but may be able to alter the allocations, except when exceeding the amounts and percentages specified in the law.

**How will the HEEHRP rebate funds be allocated?**

The DOE funding will be allocated in the form of grants to State Energy Offices. States will apply for these grants, within allocated limits, with a plan for how the funds will be used in compliance with the law. The plan will include the establishment of a delivery team and a launch schedule. DOE officers will monitor the grant. NOTE: The amounts provided in the law are maximums and not all measures need to be offered, depending on the DOE guidance to States. Funding may be used to augment existing incentives or programs. Parameters may vary around which equipment or service will be prioritized, and to what income levels. For example, funds could go to Community Action Program agencies (CAPs) to install heat pumps in low-income housing of their choosing. Attention to the formation of DOE guidance is needed.

**How do “point-of-sale” rebates work?**

Like a midstream program, a contractor buys at full price, then sells to the homeowner at a discounted price, then the contractor files for a rebate.

NOTE: Each state or delivery team may run its program differently.

**How does the installing contractor receive the HEEHRP rebate of up to \$500?**

The contractor will apply through the state’s program, and the process will vary by state. Details are pending.

**How is the area median income (AMI) determined?**

Guidance from DOE will tell us what tools to use to determine income level, and provide details regarding the verification process.

**Can a homeowner qualify for the HEEHRP or HOMES rebates, and the tax credit?\***

Homeowners can receive tax credits for any amount they spend out of pocket toward an eligible project against any income tax liability they have, even if a portion of the overall project is paid for by rebates from any source.\*

Rebates from HOMES and HEEHRP can both be received by the same home so long as the qualifying measures for the second rebate is not included in the scope of qualifying measures for the first rebate. In other words, no double dipping of federal dollars on the same installed improvement.

\*The tax credit programs are subject to final interpretation by the IRS/Treasury therefore this document should not be thought of as tax advice. Homeowners should consult their tax advisor for guidance.



# Our Commitment

We've led efforts to establish rebates and incentives for decades, educating energy groups, state and local lawmakers, utilities, Congress, and even the White House about the energy savings, cold-climate performance, and environmental benefits of our variable-capacity, all-climate heat pumps. As a result, we're well-positioned to be your leading provider of heat pump technology to satisfy the demand that this new legislation will create. Along with product innovation, we're investing in systems and infrastructure to support you, so you can support your customer. Together, we'll enjoy the benefits of the broader adoption of our variable-capacity, all-climate heat pumps.



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Scan the QR code and navigate to our web page to find the latest information about the Inflation Reduction Act including our listing of qualified products.

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