

# The Inflation Reduction Act

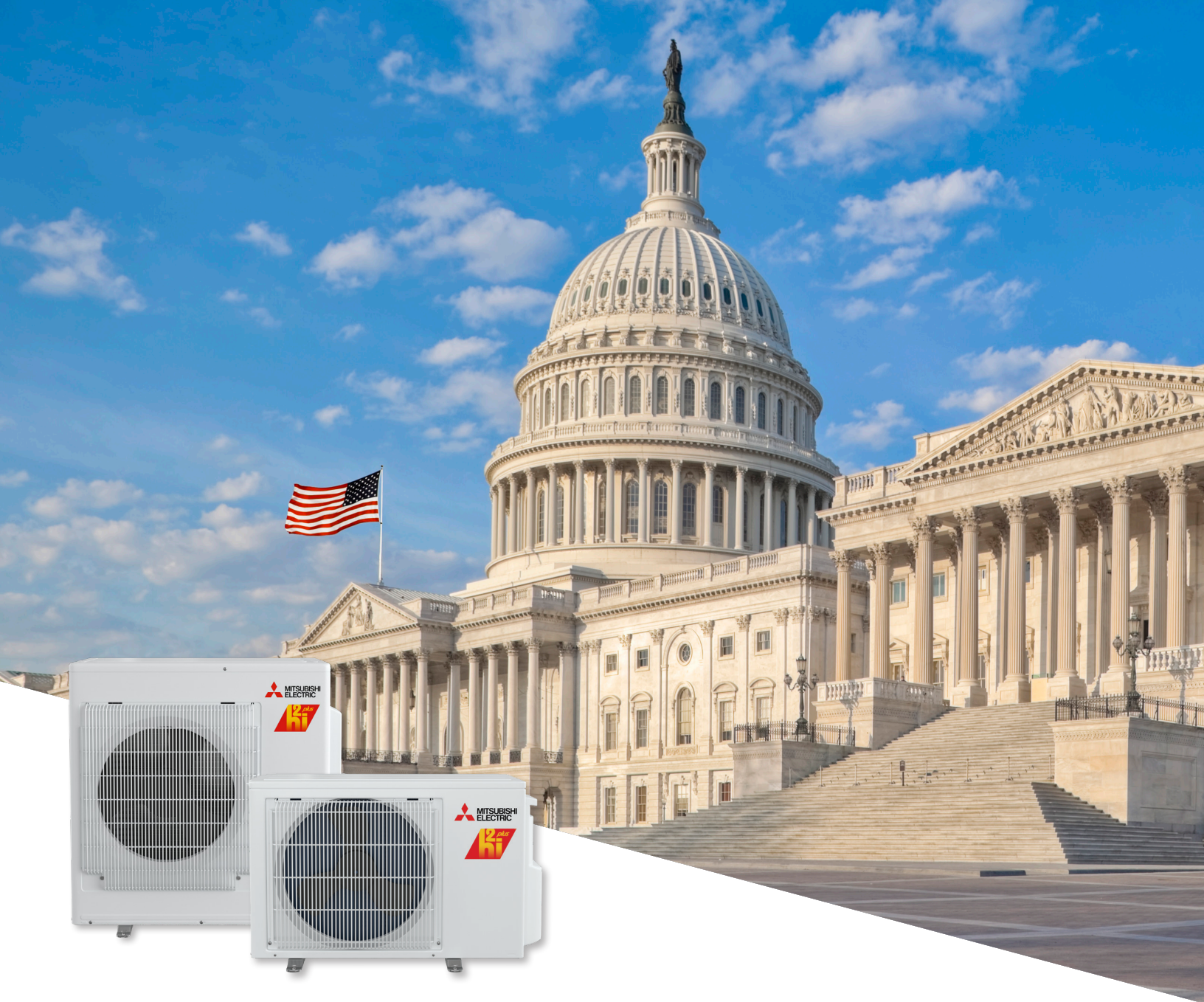
Unprecedented opportunities for the HVAC Industry with variable-capacity heat pumps



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 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. Both 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

### High Efficiency Electric Home Rebate Program (HEEHRP)

- 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, likely to start mid-2023.
  - Parameters of state-administered programs may vary.
- 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 is available for contractors per heat pump installation.
- ENERGY STAR® will be the criteria to qualify heat pump systems.
- 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.
    - 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.
- No stacking with other federal or state grants/rebates on same project.

IRA



Allocates \$4.5 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 is \$8,000

HEEHRP



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

HEEHRP



Up to a \$500 rebate is available for contractors per heat pump installation



25C



A **10-year extension and expansion** of existing tax credit - now 30% up to \$2,000 for qualifying heat pump

HOMES



Based on modeled **energy savings** (measured in kWh, or kWh equivalent) for single and multifamily

HOMES



**Single Family Homes:**  
\$2,500 for ENERGY STAR® standards;  
\$5,000 for zero energy ready homes

HOMES



**Multifamily Homes:**  
\$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

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

- A 10-year extension and expansion of existing 10% tax credit to 30%.
- 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.
- However, tax credit increases up to \$2,000 for buying and installing qualified heat pump.
  - The heat pump system must meet or exceed the highest performance tier set by the Consortium for Energy Efficiency (CEE).
- Households may claim annually through 2032.

## HOMES Rebate Program

- Allocates \$4.3 billion in rebates for home energy efficiency improvements based on DOE-approved modeling tools, with bonus for low income.
- Based on modeled energy savings (measured in kWh, or kWh equivalent) for single and multifamily.
- 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 home owners or owner of multifamily building with lower income tenants (<80% of local 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.)





# Commercial Program Benefitting Building Owners and Architects

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

- Beginning January 1, 2023, the deduction will be increased.
- 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).
  - 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
<b>Eligibility</b>	<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>
<b>Tax Deduction Range</b>	<p><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</p> <p><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</p>	63 cents/sqft - \$1.88/sqft per eligible system
<b>Deduction Cap</b>	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
<b>Technical Requirements</b>	ASHRAE standard in effect from four years prior to completion of construction	ASHRAE standard in effect from two years prior to start of construction
<b>Bonus Deduction</b>	<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?**

Most programs start 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 at the beginning of 2023.\*

**Will each state operate differently?**

States will have to adhere to the criteria in the law (i.e. ENERGY STAR, CEE standards) but will 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?**

We believe 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. E.g. funds could go to Community Action 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 contractor get their \$500 rebate?**

The contractor will apply through the state program, and the process will vary by state.

**How do I determine the definition of area low to median income (LMI)?**

The 80% and 80-150% median range can be found via Fannie Mae and HUD. The “area” is typically your county. Most likely, the decision for which households qualify will be determined by the CAP agencies.

**Can LMI take both the 25C tax credit (annually) and rebate?\***

Yes. If they have tax liability for a credit but cannot exceed the amount of tax liability that they would otherwise owe. Any leftover tax credit can be used in subsequent years. They must consult their tax advisor for the best guidance.

**Can LMI take the 25C tax credit (annually) and HOMES rebate?\***

Yes, and these households can take the 25C tax credit to the level of their tax liability.

\*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 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 heat pumps.



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