

**On behalf of the
Air-Conditioning, Heating, and Refrigeration Institute (AHRI)**

**Submission of Written Comments to the Tax Reform Working Groups (Energy)
Committee on Ways and Means**

April 15, 2013

Introduction:

The Air-Conditioning, Heating, and Refrigeration Institute (AHRI) is the trade association representing over 300 manufacturers of air-conditioning, heating, commercial refrigeration, ventilation, and water heating equipment. AHRI is an internationally recognized leader in standards development and performance certification, and is an advocate for the heating, ventilation, air conditioning, refrigeration (HVACR) and water heating industries, both domestically and abroad.

AHRI members make a significant contribution to the domestic and global economy, directly supporting more than 125,000 American jobs and, indirectly, through distributors, contractors, and technicians, supporting more than one million workers. Our members' employees contribute close to \$5 billion to the economy through their personal income.

Tax Priorities:

25C - Qualified Energy Efficiency Improvements Tax Credit

HVACR and water heating manufacturers support and encourage the adoption of energy efficient equipment in homes. As an industry, we strive to work effectively with environmental advocates and federal agencies to craft sensible and feasible energy efficiency policies.

Robust incentives to encourage the sale of high efficiency HVACR and water heating equipment have resulted in a noticeable shift in consumer demand for these products. Energy costs for homeowners continue to rise, so providing incentives for the purchase and installation of energy saving products will allow consumers to keep more of their hard-earned money through savings on their utility bills. AHRI and its members support extending the non-business energy property tax credit contained in section 25C of the tax code, but returning the credit cap to the 2010 levels of \$1,500, with no tax payers' lifetime cap. We also support and encourage a technical correction to the efficiency levels for water heaters to maximize the potential savings and product choices.

These levels were included in legislation, most recently during the 112th Congress, as H.R. 6398, the Home Energy Savings Act of 2012, introduced by Congressman Jim Gerlach.

Central Air Conditioning and Heat Pumps Efficiency Levels:

Central AC (Split): 16 SEER/13 EER

Central AC (Packaged): 14 SEER/12 EER

Heat Pump (Split): 15 SEER/12.5 EER/ 8.5 HSPF

Heat Pump (Packaged): 14 SEER/12 EER/ 8 HSPF

Furnace Efficiency Levels:

Gas Furnace: 95% AFUE

Oil Furnace: 86% AFUE with Electronically Commuted Motor

Boiler Efficiency Levels:

Gas Boiler: 90% AFUE

Oil Boiler: 86% AFUE with Temperature Reset or Thermal Purge Controls

Water Heater Efficiency Levels:

Water Heater (\$1000 Tier): Storage: .80 EF
Tankless: .90 EF

Water Heater (\$500 Tier): Storage: at least .67 EF but less than .80 EF
Tankless: at least .82 EF but less than .90 EF

*It is important to note that both tiers require a minimum of 90% thermal efficiency (TE).

The two-tier suggestion for water heaters is based on consumer purchasing habits for these products. The \$500 category is based on EPA's ENERGY STAR efficiency levels, an efficiency rating that is respected and understood clearly by most consumers. The larger \$1,000 incentive is specified for much higher efficiency levels intended for higher capacity water heaters. These models, at these higher efficiency levels, are designed to meet higher than average household hot water needs. As a result, these products tend to be more expensive and require more complex installations, leading manufacturers to suggest a larger rebate amount to include this segment of the market.

Fair Deprecation on Commercial HVACR and Water Heating Equipment

Heating, cooling, and water heating systems in commercial and residential rental properties provide for the fundamental comfort and health of its occupants. They also consume the largest share of energy within a building. Upgrading these systems decreases the energy consumption while also increasing the overall value of the property. Combining the expected dollar savings from increased energy efficiency with a more favorable depreciation schedule

can provide for a strong incentive to building owners to improve building systems. Current IRS code allows for the deduction of the costs over a 39 year period, while most equipment is typically ready to be replaced around 20 to 25 years. Because HVAC equipment is considered a major building component, it too is assigned a depreciation period of 39 years. In fact, in some cases efficiency improvements make these systems obsolete before they are fully depreciated. Furthermore, the 39 year depreciation discourages replacing old CFC-based equipment that is, according to IRS rules, still not fully depreciated. A more realistic 20-year schedule for HVAC equipment would encourage earlier replacement and reduce the risk of emitting more greenhouse gases into the atmosphere. Changing the depreciation timeline is a technology neutral and common sense approach to using the existing tax structure to improve the energy efficiency and overall value of America's building stock.

Conclusion:

The HVACR and water heating manufacturers understand the difficult fiscal situation in which the government finds itself. Balancing income and expenses is a challenge with which businesses of all sizes are all too familiar. But, simple, straightforward consumer incentives like 25C proved to be effective if not incredibly popular. With the boost under the American Recovery and Reinvestment Act of 2009 to the \$1,500 incentive levels, our industry weathered the incredible downturn in homebuilding and general consumer spending thanks to retrofits of existing homes. While few, if any manufacturers, would report an increase in overall shipments, many would attribute a minimal stabilization in their shipments thanks, in large part, to an increase in 25C eligible product sales. In conclusion, incentives work to reduce energy consumption, increase value of housing and building stock, and keep U.S.-based manufacturers, distributors, and installers as productive cogs in our economic machine.