



Statement of the Window & Door Manufacturers Association  
before the joint hearing of the  
Subcommittee on Select Revenue Measures and the Subcommittee on Oversight

Committee on Ways and Means  
United States House of Representatives

on

“Energy Tax Policy and Tax Reform”

September 22, 2011

The Window and Door Manufacturers Association (WDMA) would like to thank Chairman Tiberi, Chairman Boustany and the members of the Subcommittees for the opportunity to provide this statement regarding our nation's energy tax policy and the vital role it plays increasing energy efficiency and job creation.

Founded in 1927, WDMA is the premier trade association representing the leading manufacturers of residential and commercial window, door and skylight products for the domestic and export markets. WDMA members are focused on Total Product Performance™ products that are designed and built to performance-based standards. WDMA members are leading America's efforts to develop and utilize energy efficient windows, doors and skylights for both new and replacement construction.

We are particularly appreciative of the Subcommittees' interest in examining the goals and implementation of energy tax credits. Our testimony will comment in general on the goals of energy efficiency in buildings and specifically on the importance of the 25c tax credit to attaining dual objectives of saving energy and spurring investment in U.S. job creation.

### **Meeting Our Nation's Energy Goals Through Window, Door and Skylight Replacement**

While much has been said and written about reducing our nation's reliance on foreign oil and investing in renewable energy technologies—both important goals—not as much attention has been paid to the dramatic impact that improving the energy efficiency of existing buildings could have on reducing energy consumption, and, as a result, reducing our dependence on foreign oil and other fossil fuels.

40 percent of all energy consumed in the U.S. is consumed by residential and commercial buildings, while U.S. buildings alone accounted for 8 percent of global energy consumption in 2008.<sup>1</sup> Significantly contributing to that energy consumption is the stock of nearly a billion single-pane windows still in use in residential buildings alone. As the California Energy Commission notes, the amount of energy lost each year through inefficient windows and doors is equivalent to the amount of oil the nation receives from the Alaska pipeline.<sup>2</sup>

Any national energy tax policy needs to make replacing these inefficient windows and doors a major component if we are to make a dent in the overall efficiency of our nation's residential and commercial building stock.

### **The 25c Residential Energy Efficient Tax Credit**

Enacted as part of the Energy Policy Act of 2005, the original purpose of the Residential Energy Efficient Tax Credit (IRC 25c) was to save energy. However, in recent years, the 25c incentives have achieved two compelling national goals:

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<sup>1</sup> 2010 Building Energy Data Book, U.S. Department of Energy, Office of Energy Efficiency and Renewable Energy,

<sup>2</sup> "Today's Windows," California Energy Commission, Consumer Energy Center, [www.consumerenergycenter.org](http://www.consumerenergycenter.org)

- Saving energy by making energy efficient home improvements more affordable for a wide spectrum of the American public; and
- Saving thousands of U.S. manufacturing and construction jobs.

We believe that a properly focused residential tax credit can efficiently and effectively spur significant private investment in energy saving measures. While niche populations utilize other tax credits, the 25c tax credit is broad-based. By all accounts, it has been hugely popular with the American homeowner, particularly the middle class, in 2009 and 2010. Internal Revenue Service (IRS) preliminary data for 2009 shows that taxpayers making under \$100,000 a year claimed two-thirds of the credits.<sup>3</sup>

Also known as the Nonbusiness Energy Property Credit, 25c provides a credit to homeowners who make qualified energy efficiency improvements, including windows, doors and skylights, to their homes. In 2009, the credit was increased to 30 percent of the cost of the improvements up to \$1,500 for the 2009 and 2010 tax years. For 2011, the 25c credit was reduced to 10 percent of the cost up to \$200 for windows and skylights and \$500 for exterior doors and is due to expire altogether at the end of 2011. Many of the products that qualify for the 25c tax credits, including windows, doors and skylights are manufactured in America, unlike alternative energy sources that have benefited from other federal incentives.

As most are aware, the nation's housing industry is mired in recession, which has had a profound impact on the window, door and skylight industry. Residential window sales for new construction dropped 66 percent from 34.1 million units in 2005 to just 11.4 million units in 2009.<sup>4</sup> This has resulted in over a one-third decline in employment in our industry since 2005.<sup>5</sup>

As a result, there has been a demonstrable shift in the last few years to the remodeling and retrofit market for the window, door and skylight industry, spurred in part by the 25c tax credit. The 25c tax credit in effect for 2009-2010 was tremendously successful in supporting this industry and its workers during the worst housing downturn since World War II. The tax credit can be directly tied in our industry to the preservation and creation of American jobs and keeping plants and production lines open.

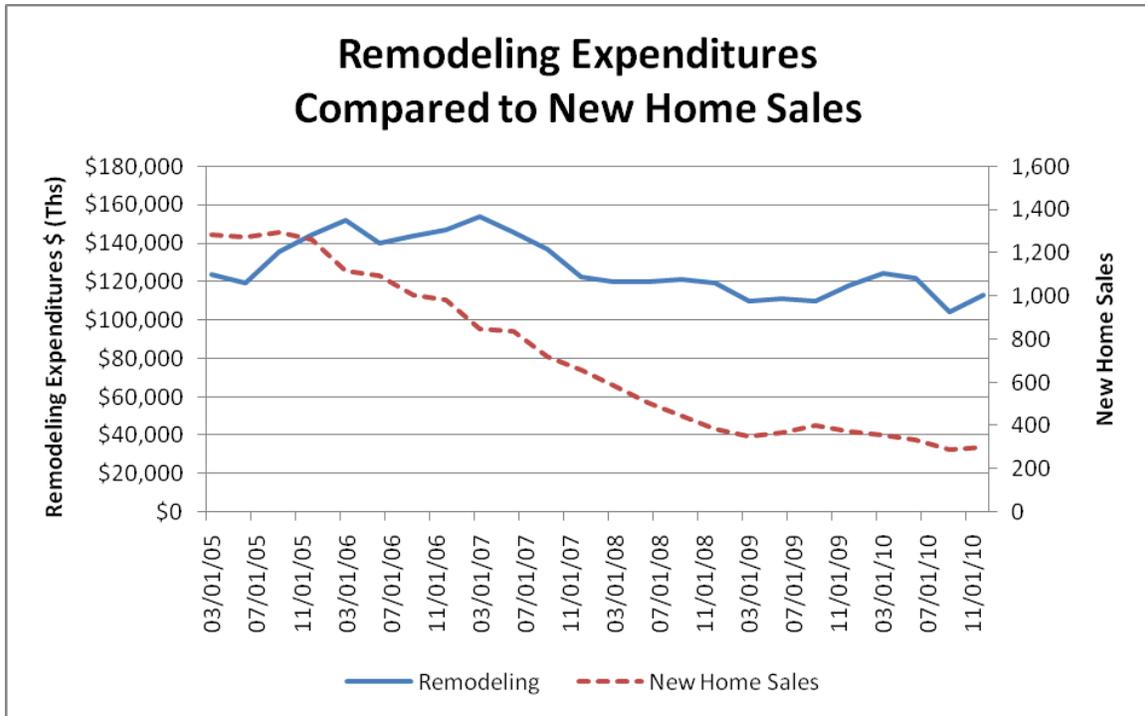
This shift to the remodeling and retrofit market is evident in the comparison to new home sales over the past five years. While total remodeling activity declined somewhat, it certainly has weathered the recession much better than new home construction, in large part due to the 25c energy tax incentives Congress enacted in 2009.

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<sup>3</sup> Individual Tax Returns Preliminary Data, 2009, Statistics of Income Bulletin, Winter 2011. Michael Parrisi

<sup>4</sup> AAMA/WDMA U.S. Industry Statistical Review and Forecast, 2010

<sup>5</sup> U.S. Bureau of Labor Statistics data



In addition, there are further benefits to the economy because of the remodeling and retrofit market over the last several years. Economists at the National Association of Home Builders<sup>6</sup> estimate that for every \$10 million in remodeling expenditures:

- 111 full-time jobs are created
- \$5.3 million in wages and salaries are generated
- \$3 million in net business income is produced
- \$3 million in federal, state and local tax revenue is collected

#### **Treasury Inspector General Report on Residential Energy Credits**

On April 19, 2011, the Treasury Inspector General for Tax Administration issued a report on the residential energy efficient tax credits (IRC 25c and 25d) and came to the conclusion that inadequate processes were in place to verify eligibility for the credits. Specifically, the report stated that:

*The IRS **cannot verify** [emphasis added] whether individuals claiming Residential Energy Credits are entitled to them at the time their tax returns are processed. The IRS does not require individuals to provide any third-party documentation supporting the purchase of qualifying home improvement products and/or costs associated with making energy efficiency improvements and whether these qualified purchases and/or improvements were made to their principal residences.<sup>7</sup>*

<sup>6</sup> The Direct Impact of Home Building and Remodeling on the U.S. Economy. National Association of Home Builders. October 7, 2008. Helen Liu, Ph.D. and Paul Emrath, Ph.D.

<sup>7</sup> “Processes Were Not Established to Verify Eligibility for Residential Energy Credits,” Treasury Inspector General for Tax Administration, Reference Number 2011-41-038, April 19, 2011

While the report did note a number of deficiencies with the IRS process for establishing verification of eligibility for the credit, some of the credits claimed are legitimate despite the inability to establish eligibility for the credit. In addition, the IRS notes that it can improve its processes to add additional safeguards and improve its ability to verify eligibility. WDMA stands ready to assist the government in making sure that the credit is only going to those who truly deserve the benefit.

To that end, WDMA has recommended consumer-friendly verification techniques to the IRS with the goal of improving the system for assuring that the tax credits claimed on returns are actually for qualifying energy efficient windows, doors and skylights. Currently, no documentation is provided on tax returns about the qualifying product. Taxpayers must maintain documentation in the event of an audit.

There are a variety of methods that should be explored to provide an identifying number or code that could be included on tax returns to help the IRS establish the eligibility of a product for the tax credit, which could be implemented for use with electronic filing. WDMA will continue to work with Congress and the IRS to improve the system of product verification.

### **Conclusion**

Without question, the nation is facing the twin challenges of reducing energy consumption while spurring job creation. The 25c residential energy efficient tax credit encourages middle-class homeowners to undertake important and beneficial energy saving upgrades, which in turn supports American jobs preservation and creation across the housing industry supply chain—from manufacturing to distribution to sales to installation. The 25c credit has been popular because it works.

As we move toward the end of 2011, WDMA would like to work with the Ways and Means Committee to extend the 25c tax credit to 2012 and beyond at a level that will continue to support the nation's energy goals while continuing to create and preserve American jobs.

WDMA would like to thank the Subcommittees for this opportunity to provide this statement and looks forward to working with them on this important issue.

### **For More Information Contact:**

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