Statement of the Residential Energy Efficient Tax Credit Industry Coalition

before the

Subcommittee on Select Revenue Measures

Committee on Ways and Means
United States House of Representatives

on

“Member Proposals Related to Certain Tax Provisions That Either Expired in 2011 or Will Expire in 2012”

April 26, 2012
The Window and Door Manufacturers Association (WDMA) would like to thank Chairman Tiberi, Ranking Member Neal and the members of the Subcommittee for the opportunity to provide this statement regarding the residential energy efficiency (25C) tax credit and the vital role it has played in increasing energy efficiency and creating jobs.

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 applaud the Subcommittee’s examination of tax provisions that expired in 2011 and will expire in 2012. 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 the 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
Much has been said and written about reducing the nation’s reliance on foreign oil and investing in renewable energy technologies—both important goals—but not as much attention has been paid to the 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.

Residential and commercial buildings account for 41 percent of all energy use in the United States (U.S.), while U.S. buildings alone accounted for 7.4 percent of global energy consumption in 2008.¹ 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.²

Any national energy tax policy needs to make replacing inefficient windows and doors a high priority if we are to make improvements in the overall efficiency of our nation’s residential and commercial building stock.

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

- 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 private investment in energy saving measures. While niche populations utilize other tax credits, the 25C tax credit is broad-based. By all accounts, it was hugely popular with the American homeowner, particularly the middle class, in 2009 and 2010. Internal Revenue Service (IRS) preliminary data for 2009 shows taxpayers with adjusted gross income of under $100,000 claimed two-thirds of the credit.3

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 an existing residence. In 2009 and 2010, the credit was increased to 30 percent of the cost of improvements up to $1,500. For 2011, the 25C credit was reduced to 10 percent of the cost of improvements up to $200 for windows and skylights and $500 for exterior doors. The 25C tax credit expired at the end of 2011. Many of the products that qualified for the 25C tax credit, including windows, doors and skylights, are manufactured—and later installed—in America, unlike alternative energy sources that have benefited from other federal incentives.

The nation’s housing industry is slowly recovering from a prolonged slump, which has had a profound impact on the window, door and skylight industry. Residential window sales for new construction dropped 65 percent from 34.1 million units in 2005 to just 11.9 million units in 2010.4 This has resulted in over a one-third decline in employment in our industry since 2005.5 Further, private residential investment remained near record low levels at 2.5 percent of gross domestic product for the fourth quarter of 2011—in comparison to its historic average of approximately 5 percent.6

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 and 2010 was tremendously successful in supporting the 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 comparison to new home sales over the past five years. While total remodeling activity declined somewhat, it certainly weathered the economic downturn much better than new home construction, in large part due to the increased 25C energy tax incentives Congress enacted in 2009.

The following chart courtesy of the National Association of Home Builders (NAHB) plots new home sales (left axis) and total remodeling expenditures (right axis). The data indicates that remodeling expenditures fared better over the 2008 through 2011 period than new home sales.

---

5 U.S. Bureau of Labor Statistics data
6 U.S. Bureau of Economic Analysis data
The tax credit program provided a floor on remodeling activity, which has declined only 32 percent since its peak compared to 76 percent for new home sales.

**Economic Impact of the Residential Energy Efficient Tax Credit**

Using the 2009 IRS tax data, the net economic impacts of the 25C tax credit programs from a remodeling perspective are significant (setting aside the long-run energy efficiency benefits for homeowners).

- For tax year 2009, IRS data indicates $25.1 billion of remodeling expenses in connection with the section 25C tax credit
- NAHB estimates that this level of remodeling activity was associated with 278,610 full-time jobs
  - 135,540 of these jobs were in the construction and remodeling sectors
- Homeowners received a tax benefit of $5.17 billion from the 25C credit
- 93 percent of taxpayers claiming the energy credit had adjusted gross income of $200,000 or less

The 25C credit is claimed on the same tax form (5695) as a similar remodeling credit, the section 25D credit, which provides a nonrefundable 30 percent tax credit to consumers for the purchase and installation of certain power production property for a home. Typical uses include solar, geothermal, fuel cells, and small wind energy. The credit is uncapped, meaning that all
qualified expenses may be claimed. Labor costs are eligible, and unlike section 25C, the section 25D credit can be claimed against the AMT.\(^7\)

The map below tracks the number of taxpayers in each state that claimed either or both the 25C and 25D tax credit, although NAHB estimates that nearly 90 percent of claims were 25C related. Intuitively, larger states in terms of population had larger numbers of taxpayers claiming the credits.

In the next map, a slightly different picture emerges. This map presents the percentage of taxpayers in each state who claimed either or both the 25C and 25D tax credits in 2009. A clear concentration of tax credit use can be seen for states in the Northeast and upper Midwest. Why? There are two leading explanations. First, homeowners in states in cold weather climates have more to gain from energy-efficient improvements in terms of reduced utility bills. However, there is no reason to believe that warm weather homes could not also benefit from energy-efficient improvements.

---

\(^7\) Although the tax code does not allow taxpayers to claim section the 25C credit against the AMT, the annual AMT “patch” typically allows taxpayers to claim section 25C and other personal, nonrefundable tax credits against AMT. The simple, straightforward approach used in section 25D offers a model for improving the section 25C tax credit. A 30% tax credit that includes labor costs and is automatically AMT-preferred is simple, straightforward and effective.
Thus, the second explanation, and the stronger one, is that the states with relatively more common use of the energy tax credits also contain older homes. The following map details the median year of construction for housing units in each state, and there is indeed a rough correlation between tax credit use and older housing with concentrations of both in many northern states.

A homeowner with a 50-year-old home is much more likely to improve their residence than a homeowner who has purchased a newly constructed home, with new construction more common in the southern part of the nation.
The last map tracks the total amount of the tax credits claimed. Overall, in 2009 taxpayers claimed nearly $5.9 billion in 25C and 25D tax credits. For the two tax credits combined, **93 percent of tax credit claims were made by taxpayers who had an adjusted gross income of no more than $200,000**, which is indicative of a middle class tax program.

With respect to the 25C credit for energy-efficient remodeling of existing homes, the IRS data indicates a total of $25.1 billion of qualified expenditures in 2009.

Because the tax credit in 2009 was limited to $1,500 per taxpayer, not all of this activity generated tax credits. In fact, according to the IRS data, just a little more than 71 percent of these costs ($5.404 billion versus potential $7.539 billion) were allowed in the 25C calculation due to the $1,500 limit. Moreover, due to other tax rules, only $5.172 billion of the $5.404 billion were allowed as realized 25C tax credits.

The first portion of the 25C credit usage is related to energy-efficient building envelope improvements, with 13 percent of the 25C claims associated with insulation, 34 percent with windows and skylights, 9 percent with doors and another 9 percent with qualified roofing materials. The second part of the credit dealt with energy-saving appliance installation, with 16 percent of the total 25C claims connected to qualified heat pumps, air conditioners, water heaters and stoves; 17 percent with qualified natural gas, propane, oil furnaces or hot water boilers; 3 percent with advanced main air circulating fans used with a natural gas, propane or oil furnace.

An economic impact model has been developed by NAHB that enables estimating total employment and economic income impacts from home building and remodeling.\(^8\) The model

---

\(^8\) [http://www.nahb.org/generic.aspx?sectionID=734&genericContentID=103543&channelID=311](http://www.nahb.org/generic.aspx?sectionID=734&genericContentID=103543&channelID=311)
uses Bureau of Economic Analysis (BEA) data and BEA input-output tables to generate economic impacts by sector. The following table presents the impacts that result from $100,000 of remodeling activity.

### Income and Employment Impacts of Remodeling on the U.S. Economy

<table>
<thead>
<tr>
<th>Industry</th>
<th>Number of Full-time Jobs</th>
<th>Wages and Salaries</th>
<th>Proprietors' Income</th>
<th>Corporate Profits</th>
<th>Total Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>All industries</td>
<td>1.11</td>
<td>$52,709</td>
<td>$13,810</td>
<td>$16,147</td>
<td>$82,667</td>
</tr>
<tr>
<td>Construction</td>
<td>0.54</td>
<td>$25,573</td>
<td>$6,601</td>
<td>$4,232</td>
<td>$36,406</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0.18</td>
<td>$8,136</td>
<td>$824</td>
<td>$4,529</td>
<td>$13,489</td>
</tr>
<tr>
<td>Wholesale and retail, Transportation and warehousing</td>
<td>0.16</td>
<td>$6,432</td>
<td>$849</td>
<td>$2,307</td>
<td>$9,588</td>
</tr>
<tr>
<td>Finance and insurance</td>
<td>0.02</td>
<td>$1,487</td>
<td>$71</td>
<td>$1,459</td>
<td>$3,017</td>
</tr>
<tr>
<td>Real estate and rental and leasing</td>
<td>0.01</td>
<td>$315</td>
<td>$1,652</td>
<td>$758</td>
<td>$2,725</td>
</tr>
<tr>
<td>Professional, Management, administrative services</td>
<td>0.12</td>
<td>$6,970</td>
<td>$2,191</td>
<td>$764</td>
<td>$9,924</td>
</tr>
<tr>
<td>Other services</td>
<td>0.09</td>
<td>$3,797</td>
<td>$1,623</td>
<td>$2,098</td>
<td>$7,518</td>
</tr>
</tbody>
</table>

Source: NAHB estimates, based primarily on data from the U.S. Bureau of Economic Analysis.

The jobs are measured on a full-time equivalent (FTE) basis. Thus, NAHB estimates that every $100,000 of remodeling activity creates 1.11 jobs on an FTE basis. 48.6 percent of those jobs are in the construction and remodeling sector.\(^9\)

Putting all the data together, the IRS data and the NAHB economic impact model indicate that for 2009, a total of 278,610 full-time jobs were in connection with the 25C credit—135,540 of these jobs were in the construction and remodeling sectors. The program supported approximately $13.2 billion in wages for these workers and $7.5 billion in net business income.

### Treasury Inspector General Report on Residential Energy Credits

On April 19, 2011, the U.S. Department of 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

---

\(^9\) The Direct Impact of Home Building and Remodeling on the U.S. Economy. NAHB Economics.
efficiency improvements and whether these qualified purchases and/or improvements were made to their principal residences.\textsuperscript{10}

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 credit 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 across the housing industry supply chain—from manufacturing to distribution to sales to installation. The 25C credit has been popular because it works.

The 25C tax credit has broad support among window, door and skylight manufacturers. 19 industry executives sent a letter to the House and Senate in February 2012 supporting a robust extension of the 25C tax credit, knowing the $1,000 level would effectively leverage consumer activity and job preservation. A copy of the letter is Included in the appendix of this statement.

WDMA would like to thank the Subcommittee for the opportunity to provide this statement and looks forward to working with it in extending the 25C tax credit at a level that will support the nation’s energy goals while creating and preserving American jobs.

For More Information Contact
Ben Gann
Director of Legislative Affairs
(202) 367-2346
bgann@wdma.com

\textsuperscript{10} “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
We the undersigned manufacturers, producing the majority of the nation’s windows, doors and skylights, are writing to urge your support for a robust extension of the residential energy efficiency (25C) tax credit that expired at the end of 2011. When set at the $1,000 level, the 25C tax credit creates and preserves American jobs and promotes energy efficiency by helping owners of existing homes afford higher efficiency products such as windows, doors and skylights.

Residential remodeling activity spurred by an elevated 25C tax credit in 2009 and 2010 was critical to maintaining our economic vitality. In 2009, IRS data indicates the enhanced tax credit spurred Americans to invest $25.1 billion on remodeling and efficiency upgrades associated with 25C. Moreover, the program supported 278,610 jobs, approximately $13.2 billion in wages and $7.5 billion in net business income according to an analysis by the National Association of Home Builders.

The loss of this incentive before the housing market recovers will continue to hamper the creation and preservation of vital U.S. manufacturing jobs. With the tax credit substantially reduced for the remodeling/retrofit market in 2011, window and door production in the U.S. decreased 22% in the first quarter of 2011 from the last quarter of 2010. Extending this incentive until the housing market further stabilizes will protect valuable U.S.-based manufacturing jobs up and down the supply chain.

We urge your support for an extension of a robust 25C tax credit, knowing the $1,000 level would effectively leverage consumer activity and job preservation. As you know, the credit benefits consumers by allowing them to choose from a menu of energy efficiency options and determine which product works best for their needs. It creates jobs and benefits homeowners by reducing their energy use, lowering their energy bills and improving their homes.

Thank you in advance for your consideration of this issue, we look forward to working with you to include an extension of the 25C residential energy efficiency credit in tax legislation currently being considered in Congress. For additional information, please contact Ben Gann, director of legislative affairs, Window & Door Manufacturers Association (WDMA), at (202) 367-2346 or bgann@wdma.com.

Sincerely,

American Window, Door & Skylight Manufacturers (see attached)
Jay R. Lund  
President & CEO  
Andersen Corporation  
Bayport, Minnesota

Jerry Burris  
President & CEO  
Associated Materials, LLC  
Cuyahoga Falls, Ohio

George Simmons  
President & CEO  
B.F. Rich Windows & Doors  
Newark, Delaware

Randal O. Emerson  
President & CEO  
Cascade Windows  
Spokane Valley, Washington

Dennis Manes  
CEO  
Champion Window  
Cincinnati, Ohio

Thomas C. Chen  
President  
Crystal Window & Door Systems  
Flushing, New York

Alan Marlow  
President & COO  
Harvey Building Products  
Waltham, Massachusetts

Dominic Truniger  
President & CEO  
Hurd Windows & Doors  
Medford, Wisconsin

R. C. Wendt  
CEO  
JELD-WEN, inc.  
Klamath Falls, Oregon

Steven Sisson  
V.P. & General Manager  
Karona, Inc.  
Grand Rapids, Michigan

Jake Marvin  
Chairman & CEO  
The Marvin Companies  
Warroad, Minnesota

Patrick J. Meyer  
President & CEO  
Pella Corporation  
Pella, Iowa

Lynn Morstad  
President  
Ply Gem Windows  
Roanoke, Virginia

Bill Mullet  
Chairman & CEO  
ProVia Door Inc.  
Sugarcreek, Ohio

George R. Emmerson  
COO  
Sierra Pacific Industries  
Redding, California

Gary Delman  
President  
Sunrise Windows  
Temperance, Michigan

David Randich  
CEO  
Therma-Tru Doors  
Maumee, Ohio

Timothy B. Miller  
President & CEO  
VELUX America  
Fort Mill, South Carolina

Steve Donner  
General Manager  
Weiland Sliding Doors & Windows  
Oceanside, California