



**To:** AIA Members

**RE:** AIA Advocacy Engagement Success! AIA Initial Review of Building Sector Provisions in the Recently Passed Final Inflation Reduction Act (H.R. 5376)

**From:** AIA Federal Relations Team

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**Summary:**

On August 7, 2022, the Senate passed the Inflation Reduction Act (H. R. 5376) by a vote of 51-50, with Vice President Harris casting the tie-breaking vote. The House of Representatives is expected to vote on Friday, August 12, 2022, and the legislation is expected to pass.

Majority Leader Schumer and Senator Manchin unveiled an agreement on the long-stalled Budget Reconciliation package on July 27, 2022. The legislation was amended slightly in the week before the Senate vote. Previous attempts by Congressional Democrats to pass a party-line reconciliation package failed in December 2021, when Senator Manchin announced his opposition to the legislation, then called the Build Back Better Act (BBBA). Negotiations have continued off and on since that time to enable the crafting of an updated version of the reconciliation package.

**This legislation includes important provisions for architects.** The Inflation Reduction Act includes AIA priorities for building codes, climate tax incentives, and affordable housing. It also makes significant changes to the corporate tax rate and allows Medicare to negotiate prescription drug prices. The package includes about \$370 billion in energy and climate-related spending, making it the largest federal investment to combat climate change in history. It raises an estimated \$739 billion in new revenue and spends about \$433 billion, putting the remaining \$306 billion toward deficit reduction.

The full text of the 755-page legislation is available [here](#). The provisions most closely related to the built environment are summarized below.

**Tax Incentives:**

- **179D/ Energy Efficient Commercial Building Tax Deduction:** 179D has been altered by the new legislation. There are now two tiers for the deduction. The first tier has a lower base deduction of



\$0.50/ sq. ft. if buildings outperform the identified ASHRAE standard by 25%. That can be increased to up to \$1/ sq. ft. based on how much the annual energy and power costs are reduced beyond 25%. The second tier has a higher base deduction of \$2.50/ sq. ft. and up to \$5.00/ sq. ft. if the building also meets the prevailing wage and apprenticeship requirements.

The legislation also requires the Secretary of Energy to promulgate rules for how the allocation of the deduction should be transferred to the primary designer if the building is tax-exempt. There had been attempts to eliminate the transfer of the allocation, which AIA strongly opposed. The legislation maintains the allocation provision and the rulemaking will provide an opportunity for better clarity on this process.

- **25C/ (Renamed) Energy Efficient Home Improvement Credit:** The 25C credit will be extended for 10 years. Homeowners can claim a credit of up to 30% of the cost of qualified products or equipment that help reduce their energy use, up to a total credit of \$1,200 annually for most purchases. There are additional limitations on other qualified products or equipment, including limiting the credit to \$600 for central air conditioners, natural gas, propane, or oil water heaters, furnaces, or hot water boilers. There is an exception for purchases of electric and natural gas heat pumps and identified biomass stoves, which are eligible for a \$2,000 credit. The credit also allows certain building envelope investments, including up to \$600 for eligible windows/ skylights and \$500 for exterior doors.
- **45L/ New Energy Efficiency Home Credit:** 45L will also be extended for 10 years. This provides eligible single-family homeowners a \$2,500 credit for meeting Energy Star requirements and \$5,000 for meeting the Department of Energy's zero energy ready home program. Multifamily credits are available for the same amounts if the building meets prevailing wage requirements. Otherwise, the multifamily credit is up to \$500 for meeting Energy Star requirements and \$1,000 for meeting the DOE's zero energy ready home program.
- **R&D:** The Research & Development tax credit that may be used against payroll is increased to \$250,000 for small businesses.
- **Low-Income Housing Tax Credit (LIHTC):** Ensures that energy credits do not negatively affect LIHTCs. Eligible entities claiming both an energy credit and a LIHTC are not required to reduce their LIHTC basis for credits claimed.
- **Qualified Business Income Deduction (Sec. 199A):** The Inflation Reduction Act does not make any tax changes to the Sec. 199A Qualified Business Income Deduction for businesses organized as pass-through entities (such as an S-Corporations, partnership, LLC, or sole proprietorships). Changes had been



considered as a potential revenue raiser, but due to the negative impact on architecture firms, AIA strongly opposed that change. Architecture firms organized as pass-through businesses will be able to continue utilizing the Qualified Business Income Deduction.

#### Other Notable Climate Provisions:

- **Energy Codes:** The legislation provides \$330 million in grants to states and local governments to adopt the latest energy codes that meet or exceed the 2021 International Energy Conservation Code (IECC) and/or ASHRAE 90.1-2019. It also provides an additional \$670 million for states and localities to adopt and implement zero-energy stretch codes. This was a top AIA priority for this legislation.
- **Federal Buildings:** The Inflation Reduction Act also includes multiple investments in federal building energy efficiency, including \$250 for General Services Administration (GSA) facility retrofits, and \$2.15 billion for the Federal Buildings Fund, to be used by the GSA “to acquire and install low-embodied carbon materials and products for use in the construction or alteration of buildings.” The legislation also includes \$975 million for GSA to invest in emerging and sustainable technologies.
- **Greenhouse Gas Reduction Fund:** The legislation provides \$7 billion in competitive grants “to enable low-income and disadvantaged communities to deploy or benefit from zero-emission technologies, including distributed technologies on residential rooftops, and to carry out other greenhouse gas emission reduction activities.”
- **Tax on Corporations:** The legislation significantly changes the way corporations are taxed. The current corporate tax rate is 21%, however, corporations can often pay a lower effective rate. Under the legislation’s alternative minimum tax (AMT), corporations with profits over \$1 billion would pay a 15% minimum, with some potential adjustments for depreciation. The legislation also levies a 1% excise tax on stock buybacks. These provisions are expected to raise revenue, offsetting other spending provisions in the legislation.
- **Drought Resiliency:** The legislation provides \$4 billion for grants, contracts, or financial assistance agreements to mitigate the impacts of drought with priority given to the Colorado River Basin and other basins experiencing comparable levels of long-term drought. This was one of the changes made between the July 27 version and the final version of the legislation.



## Housing:

- **HOMES Rebate Program:** The bill provides \$4.3 billion to state energy offices to develop a HOMES rebate program, which will reimburse homeowners and aggregators for whole-house energy savings improvements. Single-family homeowners could receive up to \$2,000 or \$4,000 through the rebates, depending on the energy savings achieved. Multifamily residential buildings are eligible for the same amounts per dwelling unit, up to \$200,000 or \$400,000 total, depending on the energy savings achieved. For low-income households, the potential rebate increases to \$4,000 or \$8,000 still dependent on energy savings. This was also a leading AIA priority.
- **High-Efficiency Electric Homes Rebate:** Provides \$4.275 billion to state energy offices to establish a rebate program. The rebates may be used for appliance upgrades, such as heat pumps, electric stovetops/ovens, and non-appliance upgrades, such as insulation, electric wiring, and ventilation. The legislation also provides \$225 million for grants to Tribal Nations to develop and establish high-efficiency electric home rebate programs.
- **Affordable Housing Energy Efficiency, Water Efficiency, and Climate Resilience:** Provides \$1 billion for the Department of Housing and Urban Development (HUD) to fund grants and loans to enhance the water efficiency, energy efficiency, and resilience of eligible affordable housing units.