

TAX ALERT

45L Tax Credit for Energy-Efficient Dwellings

The 45L credit allows the “eligible contractor” of a qualified new energy-efficient dwelling unit a \$2,000 tax credit in the year that unit is sold or leased as a residence. The Act has extended the 45L credit retroactively for qualifying dwelling units initially sold or leased beginning on January 1, 2018, through December 31, 2020. The dwelling unit must be located in the U.S., be substantially completed after August 8, 2005, and be initially leased or sold for use as a residence during the year the credit is claimed.

Homebuilders of single-family homes or developers of low-rise multifamily developments may qualify as an eligible contractor for the 45L credit. For a developer of a low-rise multifamily development, the credit applies to each qualifying unit initially leased or sold during the year. Example: A developer builds a 400-unit apartment complex and initially leases 300 units in 2019 and the remaining 100 units in 2020. The developer would be eligible for \$600,000 in 45L credits in 2019 and \$200,000 in 45L credits in 2020. The credit is reported on IRS Form 8908, Energy Efficient Home Credit.

An eligible contractor is the person or entity who owns the qualified energy-efficient home during its construction. If a taxpayer hires a third-party contractor to construct the home but owns and has basis in the home during its construction, the person hiring the contractor is the eligible contractor, not the third party.

For a dwelling unit to qualify for the 45L credit, it must show a reduction of energy use by at least 50 percent when compared to the applicable standards in the 2006 International Energy Conservation Code. At least one-fifth of the 50 percent energy efficiency must come from improved building envelope components.

Multifamily developments must be three stories or fewer above grade to qualify for the credit. A \$1,000 credit also may be available for energy-efficient manufactured homes. The manufactured home must show a reduction of energy use of at least 30 percent to qualify.

To qualify for the credit, the eligible contractor must obtain a certification for each unit by a qualified third-party certifier. An eligible certifier is a person not related to the eligible contractor who has been accredited or otherwise authorized by the RESNET or an equivalent rating network. The certifier conducts testing and prepares a certification package. A certification report specific to the 45L credit should be completed prior to claiming the credit and maintained by the taxpayer.