

# NAHMAanalysis

NATIONAL AFFORDABLE HOUSING MANAGEMENT ASSOCIATION

## Ensuring NAHMA Members Receive the Latest News and Analysis of Breaking Issues in Affordable Housing

National Affordable Housing Management Association – 400 N. Columbus Street, Suite 203 - Alexandria, VA 22314  
Phone 703-683-8630 - Fax 703-683-8634 - [www.nahma.org](http://www.nahma.org)



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### The Inflation Reduction Act (IRA): A Focus on Affordable Housing

#### Background

On August 16, 2022, President Biden signed into law the “Inflation Reduction Act of 2022” (IRA). IRA contains close to \$400 billion in funding to address issues related “to climate change, including reduction of U.S. greenhouse gas (GHG) emissions or promotion of adaptation and resilience to climate change impacts.”<sup>1</sup> This NAHMAanalysis serves as a guide to where members can find additional information on the various affordable housing and community-focused initiatives by regulatory agency, including: Depts. of Treasury (Treasury) and Internal Revenue Service (IRS) tax incentives, Energy (DOE) tax credits, Housing and Urban Development (HUD) Green and Resilient Retrofit Program, Environment Protection Agency (EPA) Greenhouse Gas Reduction Fund, and the White House Council on Environment Quality (CEQ) environmental Justice Initiatives.



**Green and Resilient Retrofit Program (GRR):** IRA provides \$837.5 million to HUD for loans and grants to fund projects that improve energy or water efficiency, enhance indoor air quality or sustainability, implement the use of zero-emission electricity generation, low-emission building materials or processes, energy storage, or building electrification strategies, and/or address climate resilience. Eligible HUD-assisted multifamily properties include, but are not limited to, Section 8 Project Based Rental Assistance (PBRA), Section 811 Housing for Persons with Disabilities, and Section 202 Housing for the Elderly. IRA also includes \$42.5 million for energy and water benchmarking of the HUD-assisted multifamily portfolio along with associated data analysis and evaluation at the property- and portfolio-level, and the development of information technology systems necessary for the collection, evaluation, and analysis of such data.<sup>2</sup> At this time, HUD is in the program design phase for this program. Based on recent discussion, NAHMA understands that HUD is planning for a first quarter release of initial funding applications, followed by multiple funding rounds, given the September 2028 duration.

<sup>1</sup> [Inflation Reduction Act of 2022 \(IRA\): Provisions Related to Climate Change](#) (Congressional Research Service, Oct. 3, 2022)

<sup>2</sup> [Green and Resilient Retrofit Program: Request for Information](#) (Sept. 27, 2022)



**Consumer Home Energy Rebate Programs:** IRA allocates around \$9 billion to DOE for the consumer home energy rebate programs, enabling communities to make homes more energy efficient, upgrade to electric appliances, and cut energy costs. DOE estimates that the historic home energy efficiency and electrification consumer rebates authorized will save households up to \$1 billion annually.<sup>3</sup> The funding is divided into two buckets: \$4.3 billion available for the Home Energy Performance-Based, Whole-House Rebates (HOME Rebates) to develop and implement a rebate program to homeowners and aggregators for whole-house energy saving retrofits. Per a recent DOE press release, the HOME Rebates include rebates for energy efficiency retrofits that range from \$2,000-\$4,000 for individual households and up to \$400,000 for multifamily buildings. (Up to \$2,000 for retrofits reducing energy use by 20 percent or more, and up to \$4,000 for retrofits saving 35% or more. Maximum rebates double for retrofits of low- and moderate-income homes.)

An additional \$4.3 billion will be available for the **High-Efficiency Home Electric Home Rebate** program to provide funding to DOE for state energy offices to develop and operate high-efficiency electric home rebate programs for appliance and non-appliance upgrade. Per a recent DOE press release, the high-efficiency electric home rebate program includes: point of sale rebates, administered by states; means testing that will provide 50% of the cost for incomes 80 to 150% of area median income, and 100% of the cost for incomes 80% of area medium income and below and similar tiers for multifamily buildings; a \$14,000 cap per household, with a \$8,000 cap for heat pump costs, \$1,750 for a heat pump water heater, and \$4,000 for panel/service upgrade; and other eligible rebates such as electric stoves and clothes dryers, and insulation/air sealing measures.



The IRA allocates over \$41 billion to the EPA, including \$27 billion to capitalize existing and new green banks and fund state and local government investment in distributed energy and other clean technologies; \$5 billion for Climate Pollution Reduction Grants at the state, local, and Tribal level to develop and implement plans to reduce greenhouse gas emissions; and \$3 billion in Environmental and Climate Justice Block Grants to fund community-based nonprofit organizations. Additional information on EPA's programs and initiatives can be found here: <https://www.epa.gov/inflation-reduction-act>



According to an [analysis](#) from the Bipartisan Policy Center (BPC), the IRA provides tax provisions for improving the energy efficiency of residential and commercial buildings, including § 25C, 25D, 45L, and 179D of the Internal Revenue Code.<sup>4</sup> The bill provides two credits for residential clean energy and energy efficiency home improvements: BPC states, “The **Energy Efficiency Home Improvement Credit (commonly referred to as 25C)** provides a 30% tax credit for home energy efficiency projects such as installing energy-efficient exterior windows and doors, conducting home energy audits, and installing heat pumps. The tax credit has a maximum of up to \$1,200 annually for most projects, and up to \$2,000 annually for heat pumps, biomass stoves, and boilers....The **Residential Clean Energy Credit (also known as 25D)** provides a 30%

<sup>3</sup> Biden-Harris Administration Announces [State And Tribe Allocations For Home Energy Rebate Program](#) (Nov. 2, 2022)

<sup>4</sup> [What Does the Inflation Reduction Act Mean for Housing?](#) (Sept. 14, 2022)

tax credit for residential solar, wind, geothermal, and biomass fuel installments annually through 2032 and decreasing thereafter.” BPC also states the following are credits to developers for new energy-efficient homes: “The **Energy Efficient Home Credit (also known as 45L)**, established in 2006, allows developers to claim tax credits for constructing new energy-efficient homes. The credit expired in 2021, but the IRA retroactively extends it through 2031, while also raising the credit from \$2,000 to \$5,000 per unit. The IRA establishes new energy efficiency standards for the credit and eliminates its height restriction. (Previously only buildings three stories or less were eligible for credits but now buildings of any height are eligible.) Importantly, the IRA includes provisions to ensure eligible entities claiming an energy credit and LIHTC do not have to reduce their LIHTC basis for credits claimed—meaning energy credits provided in the bill will not diminish the capacity for the LIHTC to increase the supply of affordable housing.” Novogradac states, the IRA makes the “**Energy Efficient Commercial Buildings Deduction (§ 179D)** (which can be used for multifamily housing) easier to access”.<sup>5</sup>

In October, Treasury released six notices on IRA’s climate and clean energy tax incentives and will release additional guidance in early 2023. Additional information on the tax incentives can be found on the notice on provisions for improving the energy efficiency of residential and commercial buildings: <https://www.irs.gov/newsroom/irs-asks-for-comments-on-upcoming-energy-guidance>

In conclusion, IRA targets billions of funding for the preservation and new construction of affordable housing, energy efficiency incentives, and climate resiliency. The implementation of IRA will be a major focus of the Biden Administration in the coming months and years. NAHMA will be sure to keep members updated on key policy matters.

**Additional Resources:**

**White House State Fact Sheets:** [How the Inflation Reduction Act Lowers Energy Costs, Creates Jobs, and Tackles Climate Change Across America](#) (Aug. 17, 2022)

**Enterprise Community Partners:** [Maximizing the Inflation Reduction Act Benefits for Affordable Housing](#) ([webinar](#) and [slides](#))

**Novogradac:** [Benefits of the Inflation Reduction Act for Affordable Housing](#) (Nov. 2, 2022)

**National Housing Trust:** [The Inflation Reduction Act: Opportunities to Preserve and Improve Affordable Housing through Resilience](#) (Aug. 29, 2022)

**National Association of Home Builders:** [Navigating the Inflation Reduction Act](#) (IRA)

**McKinsey and Company’s:** [The Inflation Reduction Act: Here’s what’s in it](#) (Oct. 24, 2022)

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<sup>5</sup> [Renewable Energy Provisions Get Boost in IRA—And Key Community Development Tax Incentive Provisions Could Still Be Enacted This Year](#) (October 3, 2022)