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**Federal IRA Energy Efficiency Tax Credits
are Important Clean Energy Strategy, but
Offer Little Assistance to Low-Income
Households.**

Public Law 117-169, 136 Stat. 1818 (August 16, 2022), commonly known as the Inflation Reduction Act of 2022 (IRA), amended the credits for energy efficient home improvements under § 25C of the Internal Revenue Code (Code) and residential energy property under § 25D of the Code. The two income tax credits now are, in general terms:

The Energy Efficient Home Improvement Credit: Beginning January 1, 2023, the amount of the Energy Efficient Home Improvement Credit is equal to 30% of the sum of amounts paid by the taxpayer for certain qualified expenditures, including (1) qualified energy efficiency improvements installed during the year, (2) residential energy property expenditures during the year, and (3) home energy audits during the year. There are limits on the allowable annual credit and on the amount of credit for certain types of qualified expenditures. The credit is allowed for qualifying property placed in service on or after January 1, 2023, and before January 1, 2033.

The residential clean energy property credit: This provision is a 30-percent credit for certain qualified expenditures made by a taxpayer for residential energy efficient property. The IRA extended the residential clean energy property credit through 2034, modified the applicable credit percentage rates, and added battery storage technology as an eligible expenditure. The credit applies for property placed in service after December 31, 2021, and before January 1, 2033.

The credit percentage rate phases down to 26 percent for property placed in service in 2033, 22 percent for property placed in service in 2034, and no credit is available for property placed in service after December 31, 2034.

Unfortunately, some utilities are arguing that the availability of this IRA assistance is reason to reduce, or at least not expand, utility-funded low-income programs. The argument is that the federal government is providing sufficient resources to serve low-income needs. The discussion below will examine why, in fact, the IRA provides little, if any, assistance to low-income households.

The discussion was developed in the context of a recommendation in Wisconsin to make the availability of IRA funds a key component of one utility's response to the unaffordable electric and natural gas burdens faced by the utility's low-income customers. Accordingly, the information below focuses on Wisconsin data.

The discussion below focuses on the IRA tax credits, not on the IRA rebate program.

An Important Disclaimer

The federal IRA statute is a critical national commitment to clean energy investments. The IRA assistance offered through tax credit programs, however, are not designed to serve the utility customers who are facing unaffordable home energy burdens because of high bills and low-incomes. In assessing the continuing role of utility programs, it is important to understand the limitations of the IRA in providing financial assistance to low-income customers in particular.

The Low-Income Impediments to Accessing IRA Tax Credits.

Low-income households face both financial barriers and housing barriers that impede the ability of a low-income customer to make investments in energy efficiency, even with the assistance of IRA funding.

Financial Impediments

The very fact that a low-income household has limited income stands as a barrier to their being able to take advantage of the IRA tax credits. Consider, for example, the data published by the U.S. Census Bureau through its continuing "PULSE Survey." While the Census Bureau does not report data for individual metropolitan areas, and certainly not for utility service territories, it does report data at a state level. As of the date of this newsletter, the most recent PULSE Survey data is for the period June 28 through July 10, 2023.¹ The PULSE Survey results for Wisconsin show that a substantial number of Wisconsin residents continue to report difficulties in paying their "usual household expenses" within "the last seven days." The data shows that even for households with income of up to \$50,000, nearly 40% report having either a "somewhat difficult" or a "very difficult" time in paying for their usual household expenses in the last seven days (as of early July 2023).

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<https://www.census.gov/data/tables/2023/demo/hhp/hp59.html>

Difficulty paying for usual household expenses in the last 7 days By annual income (Wisconsin) (June 28, 2023 – July 10, 2023)				
	Degree of Difficulty			
	Not at all	A little	Some-what	Very
Below \$25,000	20%	30%	34%	13%
\$25,000 - \$34,999	17%	45%	16%	21%
\$35,000 - \$49,999	31%	32%	30%	8%
\$50,000 - \$74,999	36%	42%	15%	8%
\$75,000 - \$99,999	38%	33%	25%	4%
\$100,000 - \$149,999	57%	25%	15%	3%
\$150,000 - \$199,999	69%	24%	4%	3%
\$200,000 and above	74%	21%	3%	2%

household; and (3) \$49,720 for a 3-person household. In the City of Madison in 2021, nearly three-quarters of all households had either one- or two-persons (73.0%). More than 85% of all households had three or fewer persons (85.5%).²

In addition to this Census PULSE Survey data, the U.S. Department of Energy’s Energy Information Administration (DOE/EIA) publishes information specific to utility bill payment problems. While there is no data specific to MGE, the relationship that exists between low-income status and the degradation in quality of life due to unaffordability utility bills has been documented by DOE/EIA. The DOE/EIA convincingly established the relationship between income and “energy insecurity” in nationwide data from its 2020 Residential Energy Consumption Survey (RECS). The data is presented in the Table below.

The Wisconsin PULSE Survey results report that for income between \$25,000 and \$35,000, the percentage of households reporting it “very difficult” to pay their “usual household expenses” in the last seven days remained higher than the percentage reporting it to be “not at all difficult.” For households with annual income less than \$25,000, nearly half (47%) reported it either “somewhat difficult” (34%) or “very difficult” (13%) to pay their usual household expenses.

This Wisconsin PULSE Survey data supports the need to provide additional assistance to households with income up to 200% FPL. In 2023, 200% of FPL was: (1) \$29,160 for a 1-person household; (2) \$37,440 for a 2-person

² American Community Survey, 5-year data, Table B08202, available at <https://data.census.gov/table?q=b08202&g=160XX00US5548000&d=ACS+5-Year+Estimates+Detailed+Tables&tid=ACSDT5Y2021.B08202&moe=false>

2015 annual household income	Any household energy insecurity	Reducing or forgoing food or medicine to pay energy costs	Leaving home at unhealthy temp.	Receiving disconnect or delivery stop notice	Unable to use heating equip.
Less than \$20,000	58.0%	46.9%	24.8%	26.6%	11.2%
\$20,000 to \$39,999	56.1%	46.6%	21.2%	19.5%	9.5%
\$40,000 to \$59,999	46.8%	37.7%	20.7%	18.1%	8.0%
\$60,000 to \$79,999	39.7%	31.3%	15.0%	14.4%	6.3%
\$80,000 to \$99,999	29.3%	21.5%	8.9%	11.5%	4.2%
\$100,000 to \$119,999	20.1%	12.8%	5.7%	7.0%	2.0%
\$120,000 to \$139,999	11.1%	6.1%	4.1%	3.7%	1.2%
\$140,000 or more	7.2%	2.6%	3.1%	1.5%	0.8%

The data shows that as household income increases, home energy insecurity decreases. Nearly half of households with income less than \$20,000 had experienced an energy insecurity, while that number falls to less than 20% for households with income of \$60,000 or more. When income increases to more than \$140,000, the percentage experiencing any type of energy insecurity falls below 10%.

This data illuminates one key impediment to the use of IRA credits by low-income households. The likelihood is slim, if at all, that someone will invest in energy efficiency measures when they are experiencing difficulties in paying their

³ U.S. Energy Information Admin., Table HC 11.1 Household Energy Insecurity, 2020, available at <https://www.eia.gov/consumption/residential/data/2020/hc/pdf/HC%2011.1.pdf>.

“usual household expenses” on a week-to-week basis (as measured by the PULSE Survey), or are experiencing one or more “household energy insecurities” (as measured by the RECS).

Housing Impediments

The housing impediments to the ability of low-income households to access IRA tax credits are even more problematic than the financial impediments. The housing impediments are built into the very structure of the IRA.

It is necessary to realize that one constraint on IRA tax credits is that those tax credits are available only for a person’s primary residence. As the Internal Revenue Service (IRS) explained in a Fact Sheet about the IRA tax credits, “the credits are never available when the improvements are made to homes not used as a residence by the taxpayer. For example, landlords can never use these credits for improvements made to any homes they rent out but do not use as a residence themselves.”⁴

In Wisconsin, FSC found that this unavailability of IRA tax credits for rental housing is a serious roadblock to providing assistance to low-income customers. For example, low-income households in MGE’s service territory are predominantly renters. On the one hand, MGE has 150,314 units occupied by homeowners in 2021, of which 2,453 (1.6%) had income at below \$10,000; of all owner occupied units, 6,045 (4.0%) were occupied by households with annu-

⁴ IRS Fact Sheet (December 2022). “Frequently asked questions about energy efficient home improvements and residential clean energy property credits,” IRS Publication No. FS-2022-40, at 4. In releasing this Fact Sheet, the IRS addressed various aspects of the tax credits available through the IRA. One of the aspects addressed is involves what residence qualify for the tax credits.

al income below \$20,000. On the other hand, MGE had 103,075 renter-occupied housing units in 2021, of which 18,708 (18.1%) were occupied by renters with an annual income at or below \$20,000.⁵ If you are poor in the MGE service territory, you are most likely to be a renter as well (76% of all households with income below \$20,000 are renters).

Accordingly, unless a tenant has a willingness to invest their limited income into making energy efficiency improvements for the property of their landlord, IRA tax credits are effectively not available to low-income households.

Availability of Up-Front Investment Funds.

The fact that IRA assistance is provided through tax credits means that this assistance is provided only after-the-fact. Through a tax credit, the household must make the entire investment and then subsequently receive some of that investment returned. Accordingly, the “upfront” cost of low-income energy efficiency investments would be the *entire* amount of the efficiency investment (minus rebates if provided at the point-of-sale) with a portion of that expenditure returned to the household.

Low-income households do not have the financial capacity to make such an up-front investment. Looking at the “final cost” of an investment *after accounting for tax credits* tends to mask this need for the substantial front-end investment. The offsetting tax credit would not be provided until the *next* tax year, and even then, only if the household files a tax return and the associated paperwork needed to claim the tax credit.

⁵ Table B25118, American Community Survey, 5-year data, 2021.

Any dollar value of the IRA tax credit received, of course, is further reduced by the extent that a taxpayer requires a paid tax preparer to complete the required forms, and make the required calculations, to identify what investments qualify for the IRA tax credit and how much of a tax credit will be received.

IRA Tax Credits Assume a Tax Liability.

In order to receive a tax credit, a household would *first* need to have an income tax liability. For a single person under age 65, there is no income tax liability if the person earns less than \$12,950 per year. For a married couple under age 65, there is no income tax liability for income less than \$25,900. The current incomes at which a federal income tax liability begins is set forth in the Table below.

Income at which Federal Tax Liability Begins (2023) ⁶		
Single	under 65	\$12,950
Single	65 or older	\$14,700
Head of household	under 65	\$19,400
Head of household	65 or older	\$21,150
Married filing jointly	under 65 (both spouses)	\$25,900
Married filing jointly	65 or older (one spouse)	\$27,300
Married filing jointly	65 or older (both spouses)	\$28,700

To place these incomes in context, 100% of the Federal Poverty Level in 2023 is: (1) \$14,580 for a one-person household; (2) \$19,720 for a

⁶ Available at <https://www.irs.gov/newsroom/who-needs-to-file-a-tax-return>

two-person household; and (3) \$24,860 for a 3-person household.

The Significance of IRA Tax Credits as “Non-Refundable” Credits

Not all “tax credits” are the same. And the type of tax credit provided through the IRA largely makes them unavailable to low-income households.

Simply owing “some” tax liability will not necessarily qualify a household for tax credits provided through the IRA. One aspect of IRA tax credits is that they are “non-refundable” tax credits. What that means is that if, for whatever reason, a household’s tax liability is reduced to \$0, the tax credit is no longer available.

As the IRS explains, “[b]oth the Energy Efficient Home Improvement Credit and the Residential Clean Energy Property Credit are *nonrefundable* personal tax credits. A taxpayer claiming a nonrefundable credit *can only use it to decrease or eliminate tax liability*. A taxpayer will *not* receive a tax refund for any amount that exceeds the taxpayer’s tax liability for the year.” (emphasis added).

Indeed, the IRS explains further that “[u]nder the Energy Efficient Home Improvement Credit: a taxpayers may not carry the credit forward. Thus, if a taxpayer does not have sufficient tax liability to claim all or a portion of the credit in the year in which the related property for which the qualifying expenditure is placed in service, *the unused amount of the credit may never be claimed.*”⁷

Accordingly, for lower income households with lesser tax liabilities, it is likely that households would not be able to take advantage of the IRA

⁷ IRS Fact Sheet FS-2022-40, supra.

tax credits. The amount of the tax credit is not driven by the amount of investment in energy efficiency as much as it is limited by the amount of the household’s federal income tax liability.

The problem is not theoretical. Other tax credits (such as the Earned Income Tax Credit) not only provide substantial tax relief, but provide “refundable” tax relief (meaning that if the tax liability is reduced to \$0, the taxpayer gets to pocket the difference). For Tax Year 2020 (tax returns filed in 2021) (the last year for which county-specific data has been published),⁸ 23,110 taxpayers –the IRS reports that one can use “taxpayers” as a surrogate for households— in Dane County claimed the federal Earned Income Tax Credit, which averaged \$1,884 in Dane County. Of those, 20,030 (87%) received a refundable tax credit (indicating that the credit was bigger than the tax liability). As can be seen, therefore, it is not likely that low-income households will have a sufficient tax liability to be able to claim the entire non-refundable tax credit provided through the IRA.

The Interaction with Other Tax Credits.

The interaction between the IRA tax credits and other tax credits available to help low-income households is not clear. For example, it is not clear which tax credits are applied “first” in calculating a taxpayer’s tax liability, credits such as the EITC (which *are* refundable), or the IRA credits (which are *not* refundable), or the Child Tax Credits (CTC) (which are refundable, but only up to a maximum).

The answer to that question, of course, makes a difference. If one’s EITC and CTC get applied first, a person’s tax liability is likely to have *al-*

⁸ <https://www.irs.gov/statistics/soi-tax-stats-county-data-2020>

ready been reduced to \$0 (at least in 90% of the cases), so that taxpayer would not get the IRA tax credit (since it is a non-refundable credit). If the IRA tax credit gets applied first, that's not a problem since the EITC is fully refundable. However, it *is* still a problem for the CTC since the CTC is refundable only up to a certain maximum dollar amount (\$1,500 in 2023). Accordingly, every dollar of IRA tax credit which reduces the taxpayer's tax liability makes it more likely that the taxpayer would reach that maximum refundability and thus lose some of their CTC. Accordingly, the low-income taxpayers might get some of their energy efficiency investment back, but they *lose* their spending money available for day-to-day household expenses.

Summary

In summarizing the above discussion, it is important to begin by identifying what one should *not* conclude. The discussion above does not support the conclusion that the tax credits provided through the federal Inflation Reduction Act serve no role in promoting a clean energy future. However, the IRA is not an effective device through which to reduce unaffordable home energy burdens to a more affordable level for low-income households. Indeed, the IRA was never intended to serve such a function. Providing tax credits to households at this income level will not have a meaningful affordability impact. Accordingly, they should not be used to displace affordability assistance or to displace utility-funded low-income usage reduction programs.

Persons interested in more information about the impediments to the use of IRA energy efficiency by low-income households can write for more information at:

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Fisher, Sheehan and Colton, Public Finance and General Economics (FSC) provides economic, financial and regulatory consulting. The areas in which *FSC* has worked include energy law and economics, fair housing, local planning and zoning, energy efficiency planning, community economic development, poverty, regulatory economics, and public welfare policy.