

The Inflation Reduction Act was signed into law on August 16, 2022. The Act provided extended, modified, and expanded energy incentives that may be utilized by residential homebuilders and multifamily developers. One of the most significant energy incentives in the act, the 45L Credit is summarized below:

45L Credit

Existing Credit – The 45L credit has been in existence since 2006. Qualifying properties had to be 3 stories or less and individual units had to meet certain energy standards. The original maximum credit was \$2,000/unit.

The 45L credit had expired as of December 31, 2021. The Act retroactively extended the existing credit through 2022. There is little modification to the credit for this period.

Modified Credit – The Act significantly modified the 45L credit beginning for units acquired in 2023 and later. The most significant modifications are described below:

- Extension – The modified 45L credit is available for units acquired between 2023 and 2032. This extension will provide homebuilders and developers stability to plan and use the credit for future developments.
- Basis reduction for LIHTC – The Act removes the required reduction in eligible basis for LIHTC developments.
- Energy Efficiency Requirements – The Act incorporates new energy efficiency requirements based on the Department of Energy’s Energy Star Rating and Zero Energy Ready Home Programs. Many multifamily developments and units are already Energy Star Rated.
- Prevailing Wages – The Act provides for increased credits if the development utilized prevailing wages.
- Tiered credit structure – A tiered structure for the amount of credit will be used providing a credit of \$500 - \$5,000. The tiers are as follows:
 - 1)\$500 per unit – Energy Star Rated
 - 2)\$1,000 per unit – Zero Energy Home Ready
 - 3)\$2,500 per unit – Energy Star Rated with prevailing wage requirement
 - 4)\$5,000 per unit – Zero Energy Home Ready with prevailing wage requirement
- Development Size – Energy Star Rated projects can be developments of any size. Zero Energy Home Ready projects must be 5 stories or less.

Mahoney’s thoughts – The 45L credit should be considered on all new construction or substantial rehabilitation developments. We expect many new construction multifamily units meet or are close to meeting the Energy Star Ratings providing either the \$500 per unit or the \$2,500 per unit credit. For LIHTC developments this should be discussed with investors and tax credit syndicators on all new projects.