



# Obtain Valuable Tax Credits On Residential Buildings

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45L Tax Credit





## What Is The 45L Tax Credit?

Section 45L of the Internal Revenue Code (IRC) allows developers, builders and homeowners to claim tax credits for **energy-efficient residential properties** that are **newly built or substantially remodeled**.

A broad range of single-family homes and multifamily properties are eligible for this tax credit, which has recently been extended through 2032.



## **Inflation Reduction Act Update**

Having existed since 2006, the 45L Energy-Efficient Home Tax Credit was recently expanded under the Inflation Reduction Act of 2022 (IRA). The maximum available credit was increased from \$2,000 to \$5,000 per unit with the addition of labor standards and the Zero Energy Ready Home (ZERH) program. The certification model has likewise shifted to ENERGY STAR. Because of this, the height limitation on multifamily buildings was removed.



## **LIHTC Update**

Another exciting change to the 45L program is an update for Low-Income Housing Tax Credits (LIHTCs). Any 45L credit amounts claimed no longer reduce the adjusted basis of buildings supported by LIHTCs, which means that it is now possible to claim both 45L credits and LIHTCs on the same building.

## What Are The Requirements?

The purpose of Section 45L is to encourage builders to use energy-efficient materials for the construction of residential buildings. Eligible properties do not necessarily have to be newly built homes; residential properties that have been substantially improved via remodeling or renovations are also eligible.



### Pre-2023

Prior to the IRA coming into effect in 2023, qualifying residential dwellings are required to consume 50% less heating and cooling energy than a comparable structure built in accordance with 2006 International Energy Conservation Code (IECC) standards. Additionally, the building envelope itself should account for at least one-fifth of the energy-saving improvements. The building must be certified by an independent certifier, who is required to be authorized by a rating network like the Residential Energy Services Network (RESNET).



### **2023 and Later**

Beginning in 2023, residential and mixed-use buildings must obtain either ENERGY STAR or ZERH certification in order to qualify for the 45L tax credit. They must also meet both national and regional requirements set by the U.S. Environmental Protection Agency (EPA).

For mixed-use properties, dwelling units and common areas (excluding parking garages) must make up more than 50% of the building's total square footage.



### **What Are the Prevailing Wage Requirements?**

Beginning in the 2023 tax year, qualified contractors for multifamily properties have the option of claiming higher 45L tax credits if they abide by prevailing wage requirements. “Prevailing wage” refers to the average wage a specific type of worker can expect to earn in a specific region. Taxpayers wishing to obtain the 45L credit bonus rate must ensure that all workers involved in the multifamily construction project earn income that meets or exceeds the rate of prevailing wages.

## What Types of Buildings Qualify?

### Pre-2023

- Single-family homes
- Townhomes
- Duplexes
- Triplexes

### 2023 and Later

- Single-family homes
- Townhomes
- Duplexes
- Triplexes
- Apartment complexes (any size)

- Apartment complexes (3 stories or less)
- Manufactured homes

- Manufactured homes
- Student housing (any size)
- Assisted living facilities (any size)



## How Much Is the **45L Energy-Efficient Tax Credit Worth?**

The value of the 45L credit is calculated on a unit-by-unit basis, based on the per-unit sale or lease date. This means that developers that undertake phased construction projects may need to claim their credits over the course of multiple years. You can only claim 45L credits for units that were sold or leased in the current tax year.



### Pre-2023

In tax years prior to 2023, the 45L credit is worth \$2,000 per qualifying residential unit.

### 2023 and Later

Beginning in 2023, the 45L credit is available in different amounts for different property types. The value of the per-unit credit will also vary based on which energy-savings requirements each unit meets (ENERGY STAR or ZERH). Additionally, developers of multifamily properties can earn higher credits by meeting prevailing wage requirements.

Home Type	Energy Star	Energy Star with Prevailing Wages	ZERH	ZERH with Prevailing Wages
Single-Family*	\$2,500	\$2,500	\$5,000	\$5,000
Multifamily	\$500	\$500	\$1,000	\$5,000

## Who Can Claim **45L Tax Credits?**

Only eligible contractors can claim the 45L credit. According to the IRS, the eligible contractor is the taxpayer that owns and has a basis in the residential building at the time of its construction.

Notably, there is no limit to the number of 45L tax credits each eligible contractor can claim. As long as the properties meet all requirements, you can claim tax credits for as many qualifying buildings as you own.



## How To **Get Started**

Many residential buildings are eligible for the 45L Energy-Efficient Home Tax Credit, but not many homeowners, developers and builders know to take advantage of it. ETS provides 45L certifications that are evaluated, modeled and signed off on by authorized certifiers in good standing with the IRS.

Once certification is complete, you will receive a certification package with all necessary documentation to sustain the 45L tax credit in case of IRS audit. Whether you want to file for a single home or a large multifamily development, ETS has the tax expertise required to help you apply and qualify for this valuable tax credit.



**How Much Could You Save?**  
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