

A Green Stimulus: Tax Credits for Home Energy Efficiency

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January 23, 2009

A consensus seems to have emerged in the United States that fresh thinking is needed for a targeted stimulus package that will address effectively the many connected problems the economy faces.

One piece of the problem is that there has been a near-halt in construction, as it has become clear too many homes have been built on speculation that house prices could only rise and never fall. Moreover, there has been a large decline in borrowing to finance the construction of homes and commercial buildings, as both households and businesses (even financially sound ones) have hunkered down to weather the storm. More broadly, there is a strong need to get money being spent again, to jump-start the engine of economic growth. And, many economists and ordinary citizens think we need to take steps to reduce our consumption of energy, for environmental as well as economic reasons.

All of these points could be addressed by a single proposal that Congress could pass quickly and which would have an immediate effect: a personal tax credit for home improvements and renovations that increase energy efficiency (that is, improvements that reduce the use of electricity or other utilities for heating and cooling).

It is important that such a proposal be crafted carefully to achieve its goal of reducing energy consumption. A simple idea would be to ask households claiming the credit on next year's taxes (or 2010 taxes) to keep their utility bills as documentary evidence. That requirement would also help deter contractors from proposing projects that would be expensive but would not actually save much energy.

One objection is that bad weather could interfere with the ability to use utility bills to gauge the effect of the home improvement. For example, suppose that in the summer of 2009, someone with an electrically heated house installs extra insulation that, in a normal winter, would be expected to reduce their electricity bills by \$100 a year. But if the winter of 2010

is more brutally cold than normal, their electricity bill might fall by only \$30, instead of the \$100 that would have happened if the weather had been normal. So, maybe the tax credit would need to be based not on actual utility bills but on what the bill would have been in a normal season (such a calculation could be done, say, using information on heating-degree-days in your local area as published by the National Weather Service).

If an announcement were made that Congress and the Administration were working on such a plan, as long as the general idea was clear (your home improvement needs to do something that will reduce your energy bills) people could begin planning by talking to contractors (who I imagine have a lot of time on their hands at the moment!) even before the details are finalised in Congress. There are lots of online resources available, like [this one](#) from the Department of Energy.

As an inducement to support the plan, the energy utilities could be offered a tax break for installing new meters that would let customers monitor their energy usage more easily - perhaps a tax break of \$10 for every customer provided with a new meter.

One objection to this proposal is that it helps only homeowners, and the people who are really hurting in the economy right now are not wealthy homeowners. But as long as non-homeowners are targeted by other parts of the overall economic stimulus package, the unfairness of giving a tax credit to well-off homeowners could be appropriately offset elsewhere. And some of the non-homeowners will get jobs doing the home improvements for the homeowners!

An attractive aspect of the proposal is that it might induce some healthy borrowing by financially strong people with good credit ratings to whom even the most cautious bank could be confident in lending. There has been much concern about the fact that, despite the large injections of taxpayer capital into the banking system, lending does not seem to have increased. Banks say that the problem is that creditworthy people do not want to borrow in these troubled times, and and it would be a mistake to make new loans to people with bad credit scores. But many of the borrowers who would be motivated by this energy tax credit would be people with strong credit ratings to whom banks will happily lend.

There are undoubtedly administrative difficulties and complexities, and Congress and the I.R.S. will need to judge whether the proposal is feasible and cost-effective. And perhaps the plan for homeowners should be paired with a similar plan for businesses, to stimulate the commercial part of the

construction industry as well. But this seems like the kind of new thinking we need to try, if we are to start digging our way out of our current mess.