

**DEPARTMENT OF TAXATION
2025 Fiscal Impact Statement**

1. **Patron** Chris S. Runion

2. **Bill Number** HB 2506

3. **Committee** House Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Income Tax: Energy Efficient Homes Tax Credit

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would establish a nonrefundable individual and corporate income tax credit for either an eligible contractor or an eligible purchaser, up to \$2,000 per construction of a qualified new energy-efficient home and \$4,000 per construction of a zero-energy ready home. The bill would limit the maximum credit amount that an eligible contractor may claim per taxable year to \$500,000.

This bill would become effective for taxable years beginning on and after January 1, 2025, but before January 1, 2030.

6. Budget amendment necessary: Yes.

Item(s): 258 and 260, Department of Taxation

7. Fiscal Impact Estimates are: Preliminary (See Line 8.)

7a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2025-26	\$304,755	1	GF
2026-27	\$107,200	1	GF
2027-28	\$88,800	1	GF
2028-29	\$88,800	1	GF
2029-30	\$88,800	1	GF

8. Fiscal implications:

Administrative Costs

The Department of Taxation (“the Department”) would incur estimated expenditures, as shown on Line 7a. Such costs would primarily consist of hiring one full-time employee and making system changes to capture and process the relevant information.

Revenue Impact

This bill would have an unknown negative General Fund revenue impact beginning in Fiscal Year 2026 and each year thereafter. Approximately 30,000 new homes are built in Virginia each year; however, the number that would meet the definitions of a qualified energy efficient or a zero-energy ready home are unknown. As a result, the negative revenue impact to Virginia is unknown.

In addition, the credit provided by this bill would likely be claimed on a Virginia return at the same time a similar federal credit is claimed. The similar federal credit was recently enhanced by federal legislation. See Line 11. It is unknown how and to what extent the credit proposed by this bill, along with the federal credit, would incentivize construction. As a result, the actual negative revenue impact of this bill is unknown.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

New Energy Efficient Home Credit

New Energy Efficient Home Credit ("45L credit") was originally enacted by § 1332(a) of the Energy Policy Act of 2005 to provide a credit for the construction of new energy efficient homes. It is codified in section 45L of the Internal Revenue Code. The 45L credit has been amended several times, and most recently the Inflation Reduction Act of 2022 ("the IRA"). Prior to the IRA, the credit had the following limitations:

- The maximum credit was \$2,000 per unit.
- Only structures three stories or less qualified.
- Homes had to achieve 50% reduction in heating and cooling compared to the 2006 IECC standards.

After the IRA, the credit had the following limitations:

- The maximum credit increased to \$2,500 per unit for Energy Star certification and \$5,000 per unit for Zero Energy Ready Homes.
- The height restriction was lifted, allowing high-rise apartments (4 stories or higher) to qualify.
- Homes now have to meet certain Environmental Protection Agency and Department of Energy standards.

The IRA also extended the 45L credit through December 31, 2032.

Proposal

This bill would establish a nonrefundable individual and corporate income tax credit for either an eligible contractor or an eligible purchaser, up to \$2,000 per construction of a qualified new energy-efficient home and \$4,000 per construction of a zero-energy ready home. The bill also clarifies that either an eligible contractor or an eligible purchaser, but not both, may claim the credit for any single qualified new energy-efficient or zero-energy ready home. The bill would limit the maximum credit amount that an eligible contractor may claim per taxable year to \$500,000. Any credit not usable for the taxable year may be carried over for the next three taxable years.

"Construction" includes substantial reconstruction and rehabilitation.

"Eligible purchaser" would be defined as the first person that purchased a qualified new energy-efficient home or zero energy ready home from an eligible contractor.

"Eligible contractor" would be defined as a licensed contractor that

- Constructed the qualified new energy-efficient home or zero-energy ready home that was acquired by an individual for use as a primary residence during the taxable year or
- In the case of a manufactured qualified new energy-efficient home, produced such home.

"Qualified new energy-efficient home" would be defined as a dwelling unit:

- Located in the Commonwealth,
- The construction of which is substantially completed during the taxable year, and
- That meets the energy saving requirements of 26 U.S.C. § 45L(c)(2).

"Zero energy ready home" would be defined as a dwelling unit:

- Located in the Commonwealth, (ii) the construction of which is substantially completed during any taxable year,
- That meets the energy saving requirements of 26 U.S.C. § 45L(c), and
- Is certified as a zero energy ready home under the U.S. Department of Energy program, or any successor program.

The Department would be required to develop guidelines for claiming this credit.

This bill would become effective for taxable years beginning on and after January 1, 2025, but before January 1, 2030.

Similar Legislation

HB 2086 is substantially similar to this bill, and would establish a nonrefundable income tax credit for an eligible contractor, up to \$1,000 per construction of a qualified new energy-efficient home and \$2,000 per construction of a zero-energy ready home,

while limiting the maximum credit amount that an eligible contractor may claim per taxable year to \$250,000.

cc : Secretary of Finance

Date: 01/26/2025 SJH
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