Amendment 1626 - To stop subsidizing millionaires for purchasing home renewable energy power systems.

This amendment would prohibit those earning $1 million or more annually from receiving a federal tax credit for purchasing and installing residential renewable energy power systems in their homes.

The Residential Renewable Energy Tax Credit (IRC §25D) provides a 30 percent credit (non-capped) to homeowners for renewable electricity generating property, such as solar panels, small wind turbines, and geothermal systems.

(The credit is non-refundable, but consumers are allowed to carry forward its value in the case they do not have enough tax liability in the year it is taken for it to be valuable.)

Our nation’s current fiscal crisis demands that Congress make tough choices and prioritize spending.

Federal spending has doubled since only fiscal year (FY) 2000, and now, in FY 2012, the government is expected to spend over $3.6 trillion, more than $1 trillion of which will be deficit spending.

This means currently, Congress borrows 30 cents out of every dollar it spends, constantly adding to our $15.3 trillion national debt at a rate of $39,000 every single second.

We are clearly at a crossroads as a nation to account for the discrepancy in Congress’ spending habits and the amount of revenue at its disposal.

One way to prioritize federal spending is to limit the federal benefits of this tax credit from those who are best able to finance the power systems on their own without federal assistance—i.e. millionaires.

In 2009, the IRS reported that 17,340 millionaires took a total of $75.652 million in residential energy credits.¹ (*caveat: this includes the tax credit’s

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sister-credit, which went towards efficiency upgrades but expired at the end of 2011).

Those who have the means to finance such projects on their own are already sufficiently incentivized to do so, primarily for the efficiency gains and cost-savings that renewable power promises is in the long-term.

**The Buffet Rule**

In his State of the Union Speech earlier this year, President Obama called on millionaires to pay a minimum tax rate of 30 percent—otherwise known as the “Buffet Rule.”

Before increasing taxes on millionaires, shouldn’t Congress stop subsidizing them first?

Our tax code grows more inefficient when more loopholes are met with higher tax rates.

Increasing taxes on Americans will not have the impact that the President desires if frivolous tax credits like this one remain available for the wealthiest Americans who do not need it to take the action it is intended to incentivize.

If Congress wants to increase the net taxes that millionaires pay, it should first reduce the loopholes that have been created by political agendas rather than take more hard-earned income away from Americans.

True reform of the tax code will make it simple and more equitable for taxpayers. Foremost, that means eliminating unnecessary financial incentives like this tax credit for millionaires.

**Prohibiting the benefits of this tax credit for millionaires is even more pertinent when considering that millionaires are the most capable—and most likely—to purchase and install renewable power systems in their homes without the help of a tax credit.**

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According to the Congressional Research Service (CRS), the tax credit may reward high-income earners for actions they would take anyway and may not even function as a true incentive for low-income earners.

High-Income Earners
According to CRS, higher income earners are more likely to invest in residential energy efficiency products either because the long-term savings they promise, environmental purposes, or some other reason.

In many cases though, these high-income earners would invest in renewable energy property even in the absence of the tax credit, which creates a scenario that essentially transforms the tax credit into a federal reward program for higher-income earners who have already decided to invest in power systems based on the merits of the product rather than federal benefits.

For these individuals, a federal tax credit is not necessary to motivate them to purchase and install renewable power systems at home.

This scenario reveals poor public policy as tax dollars are rendered purposeless in promoting the intended goal of increasing renewable energy.

According to CRS, “[a] rational consumer would be expected to invest in an energy-efficiency technology if the savings that resulted from using the property were greater than the cost of the property.”

And if residential renewable power systems indeed provide what they claim, consumers will achieve cost-savings in the long-term.

The credit is there to incentivize investment in renewable power systems, but the fact they are being claimed mostly by high-income earners undermines one of the policy rationales behind the tax credit.

Low- and Middle-Income Earners
46 percent of Americans do not pay federal income tax at all, meaning there is no tax liability to offset and, thus, the tax credit clearly has no impact on them.
The credit is nonrefundable, so those without a tax liability at all have no chance to claim the credit.

These Americans tend to be on the lower-end of income earners, leaving the higher income earners as the ones who tend to benefit from this credit.

The fact that the tax credits are largely taken by high income earners—those most likely to be able to finance the costs themselves, including millionaires—undermines a primary purpose of the tax credit.

Instead of incentivizing future behavior, the credit is rewarding past behavior, and only then with a certain income class. Moreover, it is unclear if the credit has had any effect on increasing renewable energy. When examining whether residential energy tax credits have caused additional investment in energy-efficiency property, empirical evidence from the late 1970s and early 1980s is mixed.3

Where there are some (perceived) market failures or market barriers, CRS says the tax credit is not serving to correct them.

For example, the initial cost of capital for residential renewable power systems is often higher than more traditional ones.

So, the high costs are prohibitive for lower and middle-income earners consumers who are unable to gather enough money upfront to pay for the system.

The tax credit is not helpful in this situation, because it is realized by the taxpayer at the end of the year in which it was taken, likely several months after the purchase was made.

In many cases, the gap in timing from when a purchase is made to when the tax benefit is realized is likely to negate any impacts over the initial “market barrier” that consumers face when paying for the initial cost of the power systems.

Where “capital market imperfections” exist, a new market of third-party financing is emerging.

Markets are already taking on the role of financial assistance for residential renewable power systems.

For example, “power purchase agreements” are now being facilitated by renewable power companies, investment banks, and other tax equity partners who purchase the entire power system on behalf of the resident and lease it to them for monthly payments that are set below market rates.

This way, the tax equity partner claims the 30 percent credit and accompanying depreciation while the resident pays below market rates for their power.

In 2011, the Treasury Inspector General for Tax Administration (TIGTA) identified several problems with the tax credit that make the credit susceptible to fraud.⁴

For example, TIGTA cannot verify whether those who claimed the tax credit actually made the purchases that would qualify them for the federal assistance.

This is because consumers are not required to provide third-party verification (receipts) that the purchases and installations were actually made.

The IRS form that consumers use to claim the credit does not ask them to disclose any relevant information that would confirm they are eligible for the tax credit.

In total, TIGTA found 5 percent of claimants in 2009 showed no indication they were even homeowners.

362 prisoners or minors erroneously claimed over $400,000