



ESTABLISHING A FEDERAL TAX CREDIT FOR NEW WATERSENSE LABELED HOMES

Policy Proposal and Request for Support – Amend section 45L of the tax code to include a \$2,000 tax credit for builders of new WaterSense labeled homes through 2032. Sponsors are needed for a bill to establish this new federal tax credit.

Rationale – There is a growing need for new housing across the United States. At the same time, water resources are being stretched thinly, and utility bills have been increasing faster than inflation in most communities. The federal government already provides tax credits for ENERGY STAR new homes under Section 45L of the tax code to transform the new home market to greater levels of energy efficiency and to ensure affordable energy bills for future homeowners. The tax credit enables builders to increase the efficiency of their homes without increasing the upfront costs to future homeowners. **It is time to expand the 45L tax credit to include a similar program focused on water efficiency – WaterSense labeled homes.**

Background – Much like ENERGY STAR Homes, WaterSense labeled homes is a federal program that recognizes homes that are at least 30 percent more water-efficient than typical new construction, use WaterSense labeled plumbing products, are free of water leaks, and that meet other performance requirements. There are multiple home certification organizations and associated certification methods in use, and since Version 2 of the WaterSense labeled homes program became effective on January 1, 2022, interest in the program has been growing. More information on the program can be found [here](#).

Cost Savings – There are some additional costs to build and certify a WaterSense labeled home. These upfront costs are relatively small and quickly recouped in utility bill savings. **WaterSense recently estimated that labeled homes could save between \$388 and \$978 annually on utility bills compared to typical new construction.** Nonetheless, the upfront costs can discourage builders because they incur additional costs and do not realize the utility bill savings. A new tax credit can minimize this barrier and encourage the construction of more WaterSense labeled homes. Extending the tax credit through 2032 would help transform the marketplace by giving builders, suppliers, and contractors a clear, multi-year path to adapting to building higher efficiency homes.



Water Savings – The certification process for WaterSense labeled homes is designed and implemented to ensure that new homes will save water across the United States’ many climates and geographies. This means every new homeowner will benefit from buying these water-efficient homes regardless of location. Below are WaterSense estimates for water savings in different regions.

<u>Location</u>	<u>Baseline Home Annual Water Use</u>	<u>WaterSense Home Annual Water Use</u>	<u>Annual Water Savings</u>
Charlotte, NC	129,000 gal	90,000 gal	39,000 gal
Denver, CO	161,000 gal	113,000 gal	48,000 gal
Orlando, FL	149,000 gal	104,000 gal	45,000 gal
Phoenix, AZ	261,000 gal	182,000 gal	79,000 gal
Salt Lake City, UT	159,000 gal	111,000 gal	48,000 gal
San Antonio, TX	177,000 gal	124,000 gal	53,000 gal

A study of pilot homes built under Version 2 of the program in Las Vegas, Nevada, confirmed that actual water savings met and exceeded the expected annual water savings. See *Assessing Water Use in WaterSense-Labeled Homes and Quantifying the Savings*. Jonah Schein, Toby Bickmore, and Kent Sovocool, Journal AWWA May 2022.