

Financial incentives for energy efficiency work in residential buildings



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RÉPUBLIQUE FRANÇAISE

Ministère
de l'Écologie,
du Développement
durable,
des Transports
et du Logement

Financial incentives for old buildings



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➔ Sustainable development tax credit

- ✓ **Tax credit on revenue for owner-occupiers and private landlords**
 - ✓ Energy-efficient materials and equipment
 - ✓ Systems using renewable energy sources
- ✓ **Up to a percentage of the cost of materials and equipment installed**
- ✓ **Examples:**

| Investments eligible for tax credit | Tax credit rate |
|--------------------------------------------------------------|-----------------|
| Thermal insulation materials | 25% |
| Energy generation equipment using solar, wind or water power | 50% |
| Solar panels | 25% |
| Heat pumps | 25-40% |

Financial incentives for old buildings

➔ 0% interest eco loan

- ✓ **0% interest loan for energy improvement work in private accommodation:**
 - ✓ for owner-occupiers or landlords
 - ✓ up to a limit of:
 - ✓ € 20,000 for a package of 2 types of work
 - ✓ € 30,000 for a package of 3 types of work
 - ✓ for a maximum duration of 10 years
- ✓ **Technical eligibility criteria:**
 - ✓ package of works
 - ✓ or good overall energy efficiency standard
 - ✓ or renovation of a non-communal drainage system

Financial incentives for old buildings

Social housing eco loan

- ✓ **Loan at 1.9% interest over 15 years or 2.35% over 20 years**
 - ✓ **Aimed at social housing providers**
 - ✓ **Total value of between €9,000 and €16,000**

- ✓ **To renovate 100,000 of the least energy-efficient social housing rental properties over the period 2009-2010**

Financial incentives for old buildings

Sharing of savings on overheads between landlords and tenants

- ✓ **Option available to landlords after completion of energy efficiency improvements**
- ✓ **Monthly contribution by the tenant limited to 15 years, up to 50% of the energy saving**
- ✓ **Energy savings to be assessed by calculation or set at a flat rate**

Financial incentives for old buildings

➔ Assistance from the Agence Nationale de l'habitat (National Housing Agency)

- ✓ Assistance in the private housing sector for improvements available to:
 - ✓ Owner-occupiers on modest incomes
 - ✓ Landlords
 - ✓ Dilapidated jointly-owned buildings
- ✓ 20 to 50% of the cost of work (materials and labour) subject to cost ceilings
- ✓ Grant of €130 to €430 to finance project management help
- ✓ Additional assistance for homeowners experiencing fuel poverty
 - ✓ Energy efficiency work and project management assistance
 - ✓ €1,100 to € 1,600 excl. tax for work, €300 to €430 excl. tax for assistance
 - ✓ Minimum energy saving of 25%

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Exemptions from property tax on new buildings

- ✓ Option for local authorities to exempt new buildings from property tax up to a level of 50% to 100%, for a minimum of 5 years for new buildings:
 - ✓ Completed since 1 January 2009
 - ✓ Awarded a **Low Energy Consumption Building label** (label **Bâtiment Basse Consommation, BBC**)

Financial incentives for new buildings

Adding an eco-friendly dimension to assistance for new property purchases until 31 December 2010

- ✓ Increase in the 0% interest loan (prêt à taux zéro, PTZ):
 - ✓ Loan restricted to first-time buyers, subject to income criteria, for the purchase of a main home
 - ✓ Increase to a maximum of €20,000 if the new accommodation has a **low energy consumption building label**

Financial incentives for new buildings

Adding an eco-friendly dimension to assistance for new property purchases until 31 December 2010

- ✓ **Tax credit on loan interest**
- ✓ Tax credit restricted to the purchase of a main home for a period of five years
 - ✓ **Duration of the tax credit extended to 7 years with an increase in rate if the accommodation is new and has a **low energy consumption building label****

Financial incentives for new buildings

Adding an eco-friendly dimension to assistance for new property purchases from 1 January 2011

- ✓ **The new 0% interest rate loan+ (PTZ+)**
 - ✓ Replaces the tax credit on loan interest and the former 0% interest rate on loans (PTZ)
 - ✓ **Restricted to first-time buyers without income criteria**
 - ✓ Increase in the total amount and duration of the loan compared to the former 0% interest rate loans (PTZ)
 - ✓ **Bonus loan on **new housing with a low energy consumption building label** and on **the most energy-efficient old housing** (energy efficiency assessment rating categories A to D)**

Financial incentives for new buildings

➔ Adding an eco-friendly dimension to assistance in favour of rental investment

✓ Provisions promoting rental investment under the terms of the Scellier law

- ✓ For making new accommodation complying with a rental ceiling available for rent
- ✓ Tax credit on income for the landlord spread over 9 years:

| Housing built or acquired in | 2010 | 2011 | 2012 |
|---------------------------------------------------------------|------|------|------|
| Tax credit rate | 25% | 13% | 9% |
| Rate for housing with a low energy consumption building label | 25% | 22% | 18% |

Thank you for your attention



Financial incentives for energy-efficiency measures in residential buildings

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These financial incentives target both existing buildings and new buildings. French housing stock consists of 31 million existing housing units while 400,000 new housing units are built each year.

1 - Measures in favour of existing buildings

The two principal measures are, in chronological order, the sustainable development tax credit and the eco-loan, the latter consisting of interest-free eco-loans and social housing eco-loans. In addition to these measures, it is important to underline the role played by the Agence Nationale de l'Habitat (ANAH - Agency for Improvement of Existing Dwellings).

1.1 The sustainable development tax credit

1.1.1 The general principle governing operation of tax credits

The tax credit is a general mechanism consisting of a reduction in income tax, awarded to encourage certain activities such as:

- employment in industry sectors with recruitment problems;
- purchase of a vehicle running on liquid petroleum gas (LPG) or vehicle natural gas (VNG) or an electric car;
- a donation to a political party;
- a donation or subscription to an association of public interest;
- home help and childminding expenses;
- corporate research and development costs;
- expenditure on equipment to promote sustainable development.

This tax reduction is calculated by allocating a rate of between 15 and 75% to a capped amount of expenditure. The result obtained is deducted from the income tax charged to the taxpayer. If this result is negative, the tax authorities pay the negative amount to the taxpayer.

1.1.2 Application of the tax credit to measures promoting sustainable development in housing

1.1.2.1 Reminder of the general background

The 2005 Finance Act introduced a tax credit in favour of the energy efficiency and sustainable development measures provided for in Article 200c of the General Tax Code. The purpose of this tax credit is to encourage private individuals to carry out energy improvement works on their homes using high-performance products or sources of renewable energy. The

performance criteria are defined by a joint order issued by the environment, housing and budget ministries.

The tax credit is intended for existing buildings and, for certain types of equipment, new housing (expenditure on energy-generating equipment using a renewable source of energy, heat pumps, equipment for connecting to an urban heating network). In order to ensure a satisfactory level of quality regarding installation of the products, they must be installed by professionals, but the loan usually only covers purchase of the equipment.

The current scheme has been a great success. Its implementation has resulted in works carried out for an approximate value of € billion which generated between €1.5 and 2 billion of loans in 2008. It is also an effective tool for raising awareness among private individuals and professionals of good practices in the area of residential energy retrofitting. In addition, since its implementation, the markets for products such as boilers, windows and heat pumps have evolved quickly towards improved performance standards.

The 2009 Finance Act substantially modified the tax credit in order to strengthen its efficacy while also controlling fiscal expenditure (the cost of the scheme for the State). Significant changes have therefore been implemented such as extending the scheme to landlords, coverage of labour costs for thermal insulation of opaque walls, and coverage of DPE (energy survey) costs in cases where the latter is not mandatory.

As expenditure incurred by the scheme in 2009 increased significantly to reach €2.9 billion, the 2009 remedial Finance Act should allow better control of fiscal expenditure. Significant costs for the State of installing condensing boilers and windows in particular have resulted in a reduction of the associated rate to 15%. Extending the tax credit rate to houses built before 1st January 1977 has been abolished. Additional expenses have also been officially endorsed such as coverage of geothermal heat pump installation costs, eligibility of exterior doors and coverage of thermodynamic heat pumps other than air-to-air versions.

Finally, the eligibility criteria for certain installations have been tightened. The 2009 Finance Act and its remedial Finance Act have been used to maximise the economic efficiency of the scheme.

The 2011 Finance Act will take account of the technical and economic developments in the various markets in order to strengthen the efficiency of the scheme. Certain changes have already been made. For example, reducing the tax credit rate to 25% for the purchase of solar panels has already been decided on as this market has expanded very significantly in the last few years.

1.1.2.2 Method used to calculate the tax credit

1.1.2.2.1 Expenditure limit

For owner-occupiers, the amount of expenditure eligible for the tax credit is limited to €8000 for one person and €16,000 for a couple subject to joint taxation. This amount is increased by €400 for each dependent in the household.

For landlords, the amount is limited to €8000 for each accommodation unit with a limit of 3 accommodation units per year.

These limits have to be taken into account over a period of five consecutive years between 1st January 2005 and 31 December 2012. Taxpayers who incur expenditure at intervals of more than 5 years apart can benefit from the maximum amount twice.

The tax credit is calculated on the amount of eligible expenditure, minus any benefits and subsidies received from elsewhere.

1.1.2.2.2 Calculation examples

Example 1:

A married couple who pay €9000 in tax have work carried out to install double glazing in their main residence. The bill for the work is €10,000. The tax credit rate applicable to this type of work is 15%; they will therefore benefit from a tax reduction of €1500 (10,000 * 0.15) and will only pay €7500 in tax.

Example 2:

A non-taxable married couple install double glazing in their main residence. The bill for the work is €10,000. As they pay no tax, the tax authorities will pay them €1500 (10,000 * 0.15).

The amount of tax credit is equal to the amount of capped expenditure multiplied by the tax credit rate applied to each type of work, the maximum rate for sustainable development works being 50%.

1.1.2.3 Summary of works benefiting from the sustainable development tax credit and associated rates

| Investments eligible for the tax credit | Since 1 January 2010 |
|------------------------------------------------------------------------------------------------------|-----------------------------|
| Individual or collective condensing boilers used for heating or hot water production | 15% |
| Thermal insulating materials and labour costs for opaque walls | 25% |
| Thermal insulating materials for glass walls | 15% |
| Thermal insulating materials for outside doors | 15% |
| Devices to regulate and programme heating equipment | 25% |
| Insulation of all or part of a heating or domestic hot water distribution or production installation | 25% |
| Energy-generating equipment using solar, thermal, wind or hydraulic energy | 50% |

| Investments eligible for the tax credit | Since 1 January 2010 |
|-------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Solar panels | 50% NB: this rate has been reduced to 25% since 29 September 2010 (taxpayers who are able to prove acceptance of a quote and payment of a deposit to a solar panel company before this date benefit from the tax credit of 50%). |
| Woodburning or biomass stoves | 25% 40% for replacement of an existing woodburning or biomass system |
| Air-to-water heat pumps for heat generation | 25% |
| Underground sensor heat pumps for heat generation (installation of the underground heat exchanger included) | 40% |
| Thermodynamic heat pumps for domestic hot water production (excluding air-to-air) | 40% |
| Equipment for connecting to certain types of urban heating networks | 25% |
| Costs incurred for an energy survey, excluding cases where it is legally required | 50% |

1.2 A measure designed to promote energy efficiency retrofits by private individuals and social landlords: the eco-loan

Following the “Grenelle de l’Environnement” environmental forum, our Ministry proposed the implementation of a more ambitious policy on thermal retrofitting based on a large-scale and comprehensive programme of works.

1.2.1 The eco-loan for private individuals: the interest-free eco-loan

The interest-free eco-loan is used to finance energy efficiency improvement works in pre-1990 housing used as a main residence.

This loan, available since 1 April 2009 from partner banking institutions, is designed to encourage the implementation of **comprehensive works** which will significantly reduce energy consumption in existing housing where performance is poorest.

The eco-loan is available for finance works consisting of:

- a “package of renovation works”,
- works implemented to limit energy consumption under a maximum value,
- renovation of non-collective sanitation systems using non-energy-consuming devices

The various works permitted under the interest-free eco-loan must take place within a "**package of works**" confirmed beforehand by the lending institution and including at least two of the six predefined main categories of work:

- Thermal insulation of outside walls.
- Thermal insulation of windows and doors.
- Thermal insulation of roofing.
- Works to equip houses with a domestic hot water system supplied by a source of renewable energy.
- Works to introduce or replace a heating system that can be connected to a ventilation or aeration system.
- Works to equip houses with a heating system supplied by a source of renewable energy.

None of these components can be financed in isolation by the interest-free eco-loan. The borrower's plans must include at least two of these components (for example: insulation of roofing + installation of an efficient heating system).

Once the interest-free eco-loan has been obtained, the owner of the house has a period of two years to complete the works. In addition, when the work has been completed, the borrower must provide the tax authorities with evidence proving that the agreed "package of works" has actually been implemented.

The repayment period is 10 years and the loan is capped at a value based on the option chosen and which can be up to €30,000 for three sets of work and €20,000 for two.

Finally, loans issued in 2009 and 2010 can be added to other forms of assistance such as ANAH grants and local grants, and to the tax credit on energy efficiency and sustainable development for households whose annual income does not exceed €45,000.

Funding of the scheme by the State corresponds to a tax credit on companies paid over five years to the banks which issue the eco-loans.

The scheme has proved successful, with almost 140,000 loan offers issued by banking institutions since its implementation.

1.2.2 The eco-loan for social landlords: the social housing eco-loan

France has 4.2 million social housing units managed by low-rent housing organisations.

It has been estimated that the thermal comfort of 800,000 of these units is in poor condition.

The Grenelle I Act set out a renovation programme for social housing starting with the 800,000 units consuming the most energy, which should see their energy consumption reduced to under 151 kWh of primary energy/m².year before 2020.

Financial incentives to bring this about have been introduced for social landlords.

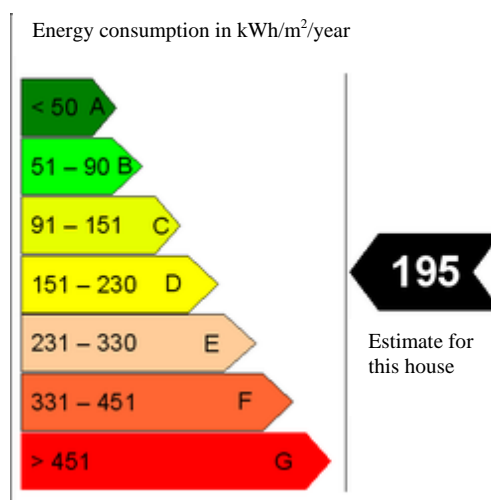
At the instigation of the French government, the Caisse des Dépôts¹ has released €1.2 billion to finance renovation of 100,000 social housing units over the period 2009-2010 out of the 800,000 targeted by the programme. This money is available in the form of a loan known as a social housing eco-loan, the average loan being €2,000 per housing unit with an interest rate of 1.9% over 15 years or 2.35% over 20 years, and awarded by the Caisse des Dépôts to social landlords owning class E, F or G housing units who want to meet the Grenelle objective.

The scheme was formalised by an agreement between the State and Caisse des Dépôts on 26 February 2009 which sets out the terms under which social landlords can apply for the loan, and in particular the criteria related to both the works eligible and the minimum energy consumption required on completion of the works. A second agreement was signed on the same day between the State and the Union social pour l'habitat representing all social landlords. This sets out the commitments of each party, and more specifically identifies the priority targets for renovation.

In order to make the sum of €1.2 billion available on an exceptional basis for the renovation of 20,000 class D social housing units, amendments were added to the aforementioned agreements.

Illustration of the energy consumption scale for housing units:

The black arrow on the right-hand side of the label shows the energy consumption of the unit in question.



1.3 The role played by the ANAH

The ANAH is a public organisation created in 1971. Its role is to implement national policy on the development, renovation and improvement of existing private housing stock.

It promotes quality and encourages work to be carried out by granting subsidies to landlords, owner-occupiers and joint owners. Its social remit means that it currently focuses on the lowest-income households.

¹ The Caisse des Dépôts is a public group and long-term investor in the service of the country's general interest and economic development. A creator of sustainable solutions, it is constantly inventing new ways supporting national and local public policies. It anticipates, innovates and adapts to future challenges.

Energy efficiency works to homes are eligible for grants from the ANAH paid to landlords and owner-occupiers. Both minimum performance levels of the components or equipment installed and global performance levels are required criteria, these being assessed using energy surveys.

According to the ANAH report on private housing stock produced using data from the last national housing survey in 2006, the percentage of energy costs in the overall income of owner-occupied households eligible for assistance from the agency is 11.8%. In addition, 62% of the households affected by fuel poverty are owner-occupiers.

The ANAH has therefore decided to target its assistance to private individuals, essentially low-income owner-occupiers of one-dwelling buildings, the latter being lived in by three quarters of owner-occupiers. They are given grants for simple energy efficiency retrofitting works - loft insulation, boiler replacement, etc. - which very quickly pay for themselves.

In line with the objectives of Grenelle de l'Environnement, control of costs has become an integral objective of any assistance given: eco-conditionality has therefore been introduced in relation to assistance for landlords. 70% of the eco-grant is paid once the quote has been accepted, representing 20 to 35% of the total cost of the work.

In addition, if the area in which the housing is located is covered by a "local commitment contract" for implementation of the Fonds d'aide à la rénovation thermique des logements privés (FART - Assistance Fund for Thermal Retrofitting of Private Housing), this assistance is complemented by:

- The environmental solidarity grant (ASE), a flat-rate payment of €100 which cannot be awarded independently of an ANAH grant. In the context of a local commitment contract to prevent fuel poverty, if contracting authorities give a grant under the same conditions, the amount of the ASE is then increased by the same amount as the grants awarded by the authorities, without, however, exceeding €600.
- Engineering grants in the form of a flat-rate payment per housing unit benefiting from an environmental solidarity grant. When housing assistance is awarded as part of a planned housing improvement operation or a public interest programme, the payment amount is fixed at €300 per housing unit, this amount completing the ANAH funding for monitoring and coordination engineering of the planned operation. In other cases - in non-localised or isolated sectors - the amount of the payment is fixed at €430 per housing unit.

The FART has a fund of €500 million issued from the French government's *grand emprunt national* or "big loan" and is managed by the ANAH following signature of an agreement between the State and that agency.

In addition, energy efficiency works are taken into account when calculating subsidies for very dilapidated or dilapidated housing. The eco-subsidy is between 25 and 35% of the total cost of works carried out.

2 - Measures in favour of new buildings

Measures in favour of new buildings take the form of exemption from property tax on building (TFPB in french) and are part of a general process of greening existing forms of assistance.

2.1 Exemptions from TFPB

The TFPB is an important resource for local councils, departments and regions. The TFPB applies to constructions and buildings above the ground and those built below it.

For private individuals, this essentially means residential premises and parking spaces that they own, whether or not they actually live in or use them. Commercial, industrial and professional buildings are also subject to the property tax.

In addition to certain specific exemptions, new buildings completed after 1st January 2009 with a "low-energy building, BBC 2005" label may be exempt from the property tax on developed land. The exemption can be from 50 to 100% as decided on by regional or local authorities and public establishments for cooperation between local authorities, which also set the exemption time, the minimum period being five years.

2.2 The greening of existing forms of assistance

2.2.1 The system in force to 31 December 2010

It consists of a set of measures both for owner-occupiers and for investors.

2.2.1.1 Measures in favour of owner-occupiers

2.2.1.1.1 Increase in the amount of the interest-free loan

The interest-free loan (PTZ) is a government assistance programme designed to help the lowest-income first-time buyers purchase a main residence by granting them a capped interest-free loan in accordance with their place of residence and the cost of the purchase.

The amount of the purchase PTZ is increased by a maximum of €20,000 for purchases of new properties with high global energy efficiency levels, in other words with the low-energy building (BBC) label.

2.2.1.1.2 The tax credit on loan interest charges

In order to encourage households to announce their intention to buy property built to comply with the French government's new energy efficiency standard, a tax credit on interest charges was introduced in 2007 for the purchase of a main residence. An additional advantage is therefore granted for purchases of a new property with high global energy efficiency levels (BBC).

This additional advantage takes the form of a longer tax credit period increased from 5 to 7 years, and an increase in the tax credit rate which is set at 40% throughout this period for people who have signed a notarial act before 31 December 2010.

2.2.1.2 Measures in favour of landlords

The “Robien”, “Borloo” and “Scellier” rental investment schemes were greened by the 2010 Finance Act in relation to the construction of new housing. This Act introduced tapered reduction of the depreciation rate for housing without a BBC label, thus creating a discrepancy encouraging the construction of housing with a BBC label.

2.2.2 The system in force from 1st January 2011

As part of the reform of tax breaks on property purchases, a strengthened interest-free loan, the PTZ +, will be introduced on 1st January 2011. It will replace the current PTZ and the tax credit on loan interest charges. This new scheme will be greened both for new housing and existing housing.

This means that new housing without the BBC label and existing housing in energy classes E to G will be assigned a surcharge, in the form of a reduction in the proportion of PTZ+. The purpose of this surcharge is to encourage new construction that is energy-efficient, and, for existing housing, to recognise the importance of green measures implemented.

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