

Energy Efficient Tax Incentives



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The Energy Policy Act of 2005 was enacted to provide immediate tax savings opportunities for energy efficient improvements. For commercial buildings, the Energy Policy Act of 2005 allows for a tax deduction of up to \$1.80 per square foot for energy-efficient features of the building's construction or retrofit under IRC §179D. Commercial buildings also include multi-family residential buildings with more than three stories. For instances where a non-taxpaying entity, such as the government or a municipality owns the building, the Energy Policy Act of 2005 allows for the primary designer, typically the architects and engineers, to claim the deductions. If the market downturn is a factor in current year profitability, this may still be beneficial due to the ability for certain small businesses to carry back net operating losses up to five years, thus, creating immediate cash benefits.

To claim a tax deduction under the Energy Policy Act of 2005, there are three different areas that qualify for a tax deduction of up to \$.60 per square foot for each area:

- Interior lighting systems
- HVAC
- Building envelope, e.g. the perimeter of the building including the roof, walls, windows, doors and floor/foundation

The deductions apply to buildings or systems placed in service or remodeled during calendar years 2006-2016. To qualify for those deductions, a project – whether an entire building or one of the three subsystems – must cut energy use compared to the limits specified in ASHRAE 90.1-2001.

Of the three areas available for these tax incentives, the one that is drawing the most attention is interior lighting systems. With substantial improvements in recent lighting product efficiency, most products currently available meet the requirements of the Energy Policy Act of 2005. The incentive for lighting systems can also be taken advantage of without energy modeling, which is required by the two other areas. Owners of commercial buildings have the opportunity to take advantage of the combination of savings from the energy efficient lighting and the savings from the tax incentives available. To demonstrate the economic benefit of a commercial building that qualifies for the maximum deduction for lighting systems, a 100,000 square foot building will generate an immediate federal tax deduction of \$60,000 and in most states an additional \$60,000 state deduction.

In order to qualify for these deductions for commercial buildings, a certification must be obtained by an engineer or contractor that is properly licensed as a professional engineer or contractor in the jurisdiction in which the building is located. Dean Dorton has the resources available to provide you with this certification and walk you through the cost/benefit analysis of taking advantage of these tax incentives.