

Section 179D - An energy-efficient building tax deduction



Ann
Kayman, New York
Grant Company

The Energy-Efficient Commercial Buildings Deduction - Section 179D of the Internal Revenue Code - provides a federal business income tax deduction of up to \$1.80 per s/f to owners of existing buildings who have invested in energy-efficient improvements placed into service after Jan. 1, 2006. Qualified improvements include the installation of new or improved interior lighting, upgrades to the building envelope, or heating, cooling, ventilation or hot water systems.

The deduction is available if these improvements reduce the building's total energy and power usage by 50% or more in comparison to a building meeting the minimum standards for efficiency set by ASHRAE standard 90.1-2001. Energy savings must be calculated using qualified computer software approved by the IRS and a detailed certified analysis conducted by a qualified third party engineer.

To illustrate, let's take an example from a major national retailer with 253 store locations. The square footage of each store is based on an average of 12,500 s/f per location. The total of all these locations is 3.162 million s/f. For lighting upgrades, the minimum deduction is \$948,750, and the maximum deduction is \$1.897 million. For HVAC systems, the maximum deduction is \$1.897 million. In reference to the building envelope, the maximum deduction is \$1.897 million. Thus the total tax deduction is \$5.692 million.

A lesser deduction of up to \$0.60 per s/f is also available based upon improvements to energy-related installations in individual systems (lighting, envelope, or heating, cooling, ventilation and hot water) which meet certain lesser target levels that would reasonably contribute to an overall building savings of 50% if additional systems were installed. For these partial credits, the targets are: 25% savings for lighting, 15% for HVAC and hot water, and 10% for building envelope. The deduction is applied to the building owner's business income tax that is owed to the federal government.

What size building qualifies? This tax deduction is based on affected square footage in buildings that are 50,000 s/f or larger, whether they are new construction or existing buildings. It is also available for tenant owned leasehold improvements.

Supplementary tax breaks: Designers and architects can also benefit from Section 179D if they implement energy-efficient designs on government buildings which meet the criteria.

This program will expire on December 31, so make haste to get your building upgraded.

Ann Kayman is the founder and CEO of New York Grant Company, New York, N.Y.

Story ran in the Green Buildings section on 02/26/2013