



INDUSTRY ALERT

April 2, 2012

IRS: Changes to 179D Energy-saving Percentages

Background

On February 24, 2012, the IRS issued a notice announcing a change in the energy-saving percentages that qualify a taxpayer for a partial deduction of the cost of energy-efficient improvements made to commercial buildings. Accordingly, [Notice 2012-22](#) outlines changes to the energy-saving percentages that taxpayers must meet when incorporating qualifying energy-efficiency improvements into commercial buildings and generating deductions under Internal Revenue Code (IRC) Section 179D.

What is Section 179D?

IRC §179D offsets some of the costs of incorporating energy-efficient improvements into commercial buildings by allowing a deduction for part or all the costs of energy-efficient commercial building property that a taxpayer places in service.

Summary – Minimum Energy-saving Percentages by Placed in Service Date:

Placed in Service Date	1/1/2006 – 12/31/2008	1/1/2006 – 12/31/2013	2/24/2012 – 12/31/2013
Interior Lighting Systems	16 ² / ₃ %	20%	25%
Heating, Cooling, Ventilation & Hot Water Systems	16 ² / ₃ %	20%	15%
Building Envelope	16 ² / ₃ %	10%	10%

Do You Qualify for the Deduction?

To qualify for the deduction, certain requirements must be met with respect to the energy-efficient improvements that include the following:

- Status as an owner or lessee of the property
- The property is installed on or in a building located in the U.S. that is wholly or partially enclosed within exterior walls, or within exterior or party walls, and a roof, and that affords shelter to persons, animals, or property
- The building may not be a single-family house, a multi-family structure of three stories or fewer above grade, or a manufactured house (e.g., a mobile home or a modular house)



- A certification that such systems or building envelope will reduce the total annual energy and power costs by a specified percentage

Note that while IRC Section 179D can be used in conjunction with the Low-income Housing Tax Credit (LIHTC), taxpayers must be prepared to navigate corresponding basis reductions resulting from using Section 179D as these basis reductions may adversely affect basis calculations pertaining to the LIHTC.

Contact

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