



**Reznick
Group**

ACCOUNTING • TAX • BUSINESS ADVISORY



Found Money!

Understanding the Section 179D Tax Deduction

WHITE PAPER

Prepared by:
Lorraine Reale, CPA and Principal

May 20, 2010



Background

If you are a commercial building owner, or are involved in the design of a government building, you may have government-provided monies available to you that can help make your buildings more energy efficient.

The Section 179D tax deduction allows a taxpayer to take a deduction for part or all the costs of energy efficient commercial building property placed in service between January 1, 2006 and December 31, 2013. The deduction is available to commercial building owners and primary designers of government buildings for the installation of energy efficient lighting, HVAC (heating, ventilation and air conditioning), hot water systems and building envelopes (walls, windows, etc.). These projects must exceed a specified energy efficiency standard but can result in a significant tax savings when implemented.

Representative Savings

Reznick Group believes that the 179D deduction offers a significant tax savings opportunity for a variety of our clients – notably commercial real estate developers, architectural and engineering firms, and designers. The chart below provides examples of the value of this tax deduction for a project based on a building's square footage:

Square ft.	Lighting		HVAC	Building envelope	Total
	Min. deduction	Max. deduction	Max. deduction	Max .deduction	
50,000	\$15,000	\$30,000	\$30,000	\$30,000	\$90,000
100,000	\$30,000	\$60,000	\$60,000	\$60,000	\$180,000
250,000	\$75,000	\$150,000	\$150,000	\$150,000	\$450,000
500,000	\$150,000	\$300,000	\$300,000	\$300,000	\$900,000
750,000	\$225,000	\$450,000	\$450,000	\$450,000	\$1,350,000
1,000,000	\$300,000	\$600,000	\$600,000	\$600,000	\$1,800,000

Section 179-D: Who Benefits Most?

Architectural and engineering firms that design government buildings can reap significant tax savings benefits from the 179D. Whenever a project is a government building, including K-12 public school projects, the designer may be entitled to the 179D deduction. The deduction has enabled some design firms to experience ZERO income tax liability for 2006, 2007 and beyond.

Commercial building owners involved in cost segregation projects can take these one-year deductions in addition to the cost segregation deduction. The items typically deducted under 179D would be 39- year assets and not reallocated to a 5 to 15 year life. Key projects that can qualify for the 179D deduction include energy efficiency lighting retrofits and geothermal and thermal storage. It is important to note that the cost segregation must be done before the energy retrofit has started in order to properly identify and value the items that will be replaced in conjunction with the planned energy retrofit.



Qualifying for the Section 179D Deduction: Have You Found the Money?

The Section 179D tax deduction can provide significant cost savings in two ways: (1) overall tax savings and (2) cost savings due to energy efficiency improvements. But before you start counting the money you can save from 179D, it is important to ask yourself the following questions:

1. Are you are a designer, architect, engineer, contractor, environmental consultant or energy services provider who created or will create the technical specification for a new or refurbished government owned building that incorporates energy efficient commercial building property between January 1, 2006 and December 31, 2013?
2. Do the energy efficiency improvements to your commercial building property include a part of the interior lighting systems, heating, cooling, ventilation and hot water systems or the building envelope? Think about the steps you are taking or did take to LEED certify buildings.
3. Will the property reduce the system's total annual energy and power costs by 50 percent or more? If the property will result in a less than 50 percent reduction, there is a sliding scale which may still yield a deduction. The calculation of energy efficiency is intended to be fuel neutral, e.g. a heating source can be a gas or oil furnace.
4. Do you have a written allocation statement with the required information either as a separate document or a part of your contract? The statement will clarify that you have the right to take the deduction or what portion of the deduction has been allocated to you.

Answering "yes" to each of these items may lead to a tax deduction resulting in a permanent benefit. It is important to note that it is not too late to review old projects and assess if you could take advantage of this deduction. An amended tax return can be filed for open tax years.

With governments and communities greening up their footprints and focusing on LEED certifications and energy efficiencies, the opportunity to utilize the Section 179D deduction is here. Make sure you bring this idea to the table. Who know, you may have found money!

For more information on Reznick Group, including our services related to the Section 179D tax deduction as well as cost segregation studies for commercial property owners, please contact Reznick Group at www.reznickgroup.com/contact-us.