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Federal 179D tax deductions: Immediate deduction for costs of energy-efficient buildings

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As part of the 2005 Energy Policy Act, the federal government enacted key tax incentives that encourage businesses to be more energy-efficient. One of these, 179D, is intended to offset some of the costs of energy-efficiency projects in the design and construction of commercial buildings. Qualifying taxpayers can take an immediate deduction for projects completed in the last few years and may apply the deduction to state taxes.

To qualify, the building must meet energy efficiency standards mandated by the IRS. Deductions of up to \$.60/s/f for each of the three categories of building envelope, interior lighting and HVAC/hot water are possible, for up to \$1.80/s/f for new construction or gut rehab. Projects completed between December 31, 2005 and December 31, 2013 are eligible and benefits may be carried forward 15 years. Tax returns usually do not need to be amended.

Case Example: 250,000 s/f warehouse relamping

The cost of the relamping was \$140,000, and the benefits were as follows:

- * EAct 179D deduction: \$140,000
- * Abandonment deduction: \$90,000
- * Annual Energy Savings \$60,000
- * \$230,000 in tax deductions

The Net After Tax benefit of the tax deductions and the 1st year energy savings exceeded the cost of the retrofit. The 179D and abandonment deductions pushed the simple payback from 2 1/3 years to well under 1 year - without utility rebates.

In 2008, the American Institute of Architects successfully lobbied Congress to allow designers of public buildings to claim the deduction. This allows architects, engineers, and ESCOs to claim a deduction of up to \$1.80/s/f of their public design project. The amount of the deduction the designer of public projects may claim is not limited to project costs.

Usually, no one in the non-profit realm may benefit from 179D deductions. ESCOs are the exception. For example, an ESCO may claim the 179D deduction on a combined heat and power or ground source heat pump installation in a building owned by a non-profit, as long as the ESCO paid for the installation.

For energy efficiency projects, the 179D federal tax deduction is a powerful financing tool, which when combined with tax write-offs of the abandoned building components, substantially increases Net Present Value and may drastically reduce the payback time of energy efficiency projects

This article was written based on a presentation to the Association of Energy Engineers - New England. To see the entire presentation, go to <http://www.aeenewengland.org>.

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