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Energy efficiency building tax deduction may be extended

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President Obama's proposed fiscal year 2014 budget contains a proposal to extend the energy efficient commercial buildings deduction, which was set to expire on December 31st, 2013. The energy efficient commercial building deduction permits a deduction for installment expenses that would otherwise be capitalized. The deduction is only available if the building satisfies four conditions. First, it has to be property for which depreciation or amortization is allowable. Second, it must be installed on or in any building that is situated in the United States. Third, it must be installed as a part of the heating, cooling, ventilation, hot water or interior lighting systems of the building. Finally, it must be certified as having been installed as part of a plan designed to reduce the total annual energy and power costs with respect to such systems of the building by 50% or more in comparison to a standard building meeting certain threshold requirements.

In the past, the maximum deduction has been limited to the square footage of the particular building multiplied by \$1.80. The President's proposal increases the maximum deduction limitation from \$1.80 per s/f to \$3 per s/f. This increase will provide a much needed boost to the use of the deduction if passed.

In addition, the proposal provides a new deduction founded on a combination of the projected and realized energy savings achieved by plans to retrofit existing commercial buildings. That deduction will only apply to commercial buildings that have been occupied for at least 10 years, and will be limited to 50% of the total cost of the plan's implementation. The deduction would vary from \$1 per s/f of retrofitted space for savings of at least 20% to \$4 per s/f of retrofitted space for savings of 50% or more.

These two deductions could provide a nice boost to the commercial building industry.

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