

EPACT / 179D Commercial Tax Deduction

The 179D Commercial Tax Deduction

Under the 2005 Energy Policy Act (EPACT), a tax deduction of up to \$1.80 per square foot is possible for the business owner or developer. The 179D Tax Deduction specifically applies to those commercial buildings that notably reduce their interior lighting energy costs, as well as heating, cooling, and building envelope. Buildings can partially qualify for \$0.60/SF for HVAC, \$0.60/SF for the Building Envelope, and \$0.30 to \$0.60/SF for Lighting. Maximum Energy Payback can help you from design to certification assuring that you receive the most benefit from the federal tax incentives for energy efficient construction.

Requirements:

Reduction in annual energy costs as compared to ASHRAE 90.1—2001 standards for three qualifying categories. Energy Analysis performed to justify savings. Inspection by a qualified Engineer or Contractor in the Jurisdiction.

What Qualifies?

Building Envelope: Save \$0.60 per square foot for a 10% reduction.

HVAC: Save \$0.60 per square foot for a 15% reduction.

Lighting: Save \$0.60 per square foot for a 25% reduction.

Partial credit: \$0.30 to \$0.60 per square foot for a 25-40% reduction in lighting power density

Receive \$1.20 or \$1.80 for meeting requirements in multiple categories.

Who Qualifies for 179D?

Commercial Buildings (Any Size)

Apartments, four or more stories, for lease

Commercial Renovations, Retrofits

Government Owned Buildings

Who Saves?

Commercial Buildings (Any Size)

Building Owner or tenant at the time of the building improvements

Public Buildings: The owner may allocate the deductions to the Architect, Engineer, Contractor, or Energy Consultant.

Time Frame

Building must be completed or renovated between December 31, 2005 and January 1, 2014.

Summary of 179D Tax Deductions

179D Rules	Permanent / Fully Qualifying Property	Permanent / Partially Qualifying Property			Interim / Partially Qualifying Property (Lighting Only)
IRS Notice	2006-52, 2008-40 and 2012-22	2006-52	2008-40	2012-22	2006-52, 2008-40 and 2012-22
Requirement	Percent Reduction in Energy Cost				Percent Reduction in Lighting Power Reduction (LPD)
Bldg Envelope	50%	16-2/3 %	10%	10%	N/A
HVAC	50%	16-2/3 %	20%	15%	N/A
Interior Lighting	50%	16-2/3 %	20%	25%	25% to 40% (50% for Warehouses)
Tax Deduction per Square Foot	\$1.80	\$0.60	\$0.60	\$0.60	\$0.30 to \$0.60 times the applicable percentage based on the reduction in LPD (100% - (3-1/3 x [40% - x%]))
Effective for Property Placed in Service	January 1, 2006 through December 31, 2013	January 1, 2006 through December 31, 2013	January 1, 2006 through December 31, 2013	February 24, 2012 through December 31, 2013	January 1, 2006 through December 31, 2013

Candidates for EPAct 179D:

Ideal candidates for EPAct deductions are newly constructed buildings with at least 50,000 sq ft., renovation projects (particularly lighting retrofits), and regional or national chains that feature multiple locations.

In general, the commercial building owners are entitled to these one-time tax deductions, however, in the case of non-taxpaying building owners such as government buildings, EPAct allows the primary designer (architect/engineer/contractor) to obtain the tax incentives.

Process for qualifying EPAct 179D:

The process of qualifying projects for the EPAct Section 179D deductions requires a detailed engineering analysis of building energy usage. For lighting projects our interdisciplinary tax experts and engineers can utilize architectural drawings and power plans to perform energy reduction and lighting density calculations. HVAC and building envelope projects, however, are generally more difficult as they require in-depth energy modeling.



Qualified Individual

A qualified individual is required to perform a modeling analysis on the building, conduct a site visit, and provide a certificate of compliance to the tax payer. According to the IRS, a qualified individual is:

- (1) not related to the taxpayer (within the meaning of Section 45(e)(4)).
- (2) an engineer or contractor that is properly licensed as a professional engineer or contractor.
- (3) has represented in writing to the taxpayer that he has the requisite qualifications. In other words, an independent third party who meets the above criteria is required to

Sample Project Size (sq ft.)	Partial Deductions			Total Max. Deduction (\$1.80/sq ft.)
	Lighting (\$0.30 - \$0.60/sq ft.)	HVAC (\$0.60/sq ft.)	Building Envelope (\$0.60/sq ft.)	
50,000	\$15,000 - \$30,000	\$30,000	\$30,000	\$90,000
100,000	\$30,000 - \$60,000	\$60,000	\$60,000	\$120,000
250,000	\$75,000 - \$150,000	\$150,000	\$150,000	\$450,000
500,000	\$150,000 - \$300,000	\$300,000	\$300,000	\$900,000
1,000,000	\$300,000 - \$600,000	\$600,000	\$600,000	\$1,800,000

Quality is our business

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