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Federal Incentives for Green Building and Design

McGuire Sponsel, LLC
specialty tax services

Agenda

- Introduction
- Overview of Current Federal Incentives
- I79D
 - Owner
 - Designer
- Alternative Energy Property Tax Credits
- Other Incentives for Designers/Owners
 - Cost Segregation
 - Research Tax Credits

Federal Tax Incentives for Green Building Design and Construction

Energy Efficient Building Deductions (179D)

- Owner
- Designer

Alternative Energy Tax Credits

- Solar
- Wind
- Geothermal

Energy-Efficient Building Deduction

The **Energy Policy Act of 2005** allows a deduction for the cost of major energy-saving improvements or new construction.

- Placed in service after Dec. 31, 2005 and before Dec 31, 2013
- Pursuant to a certified plan to reduce energy costs
- Reduces energy cost by at least **50%** in comparison to reference building (Standard 90.1-2001)
- Maximum deduction of **\$1.80 per square foot**

Energy-Efficient Building Deduction

Partial deduction of up to **\$0.60** per square foot for each eligible building component

- Interior lighting system
- Heating, cooling, ventilation, and hot water systems
- Building envelope (windows, walls, foundations, slabs, ceiling, roof system, and insulation)

Energy-Efficient Building Deduction - Background

Established Under Section 1331 of the Energy Policy Act of 2005

- IRS Slow to develop certification criteria

Rev Proc 2006-52 – Established Final Standards for Qualification/Certification

Rev Proc 2008-40 – Expanded 2006-52 to confirm how Architects Can Claim Deduction

Rev Proc 2011-14 – Clarified filing procedures for retroactive claims

I 79D – Certification Requirements

Modeling of Energy Savings

- Must be done utilizing software approved by the DOE
- Public list of software exists at

http://www.eere.energy.gov/buildings/info/tax_incentives.html

Certification

- Property must be Certified by an independent engineer or contractor licensed in the jurisdiction for which the building is PIS

179D – Transfer to Designer

Properties owned by government entities can transfer the deduction back to the person(s) primarily responsible for the design.

- Must be owned by a federal, state or local government
- Full Certification Required
- Must be accompanied by a written statement allocating the deduction back to the designer

This Creates a Permanent Tax Savings

I 79D – Savings Owner Occupied Warehouse

A 100,000 sf facility meeting the requirements for the full \$1.80/sf deduction would realize a current year deduction of \$180,000.

- Tax Savings of \$72,000 at a 40% tax rate in first year
- For Owners would create a NPV savings of approximately \$50,000

I 79D – Savings University– Designer Deduction

A State University in Ohio constructed a new student center for a total project cost of \$83 million (total square footage of 292,715). Upon review by McGuire Sponsel it was determined that they were eligible for full deduction on the HVAC and lighting systems (but not the building envelope).

- Tax Deduction of \$351,258.
- Total Tax Savings of \$140,503 at a 40% tax rate.

Interaction with Repair Regulations

- New repair and maintenance Regulations include the ability to abandon a portion of a larger asset when removed
- If lighting replaced the original lighting can be written off at the time of replacement
- Can lead to an even larger savings.

I 79D – Savings with Removal of Existing Asset

- A 500,000 sf warehouse built 4 years ago plans to replace lights at a cost of \$300,000.
- Original lights were installed at a cost of \$400,000 when the building was originally constructed (remaining basis \$360,000)
 - I 79D allows for a deduction on the new lights of \$0.60/sf or \$300,000
 - Abandonment on remaining basis of original lights \$360,000

Total Deductions of \$660,000

179D – Status in Current Legislative Environment

- Currently expires at the end of 2013
- Most tax proposals include an extension or expansion of the current deduction
 - One plan makes it a credit one increases deduction
 - Most change reference building to ASHRAE 2005 or newer
- Will most likely not know until January at the earliest

Alternative Energy Property Tax Credits

General Rules:

- 30% tax credit for the installation of Alternative Energy Property (production credit also available)
 - Solar
 - Wind
 - Geothermal
 - Other
- Most of the property eligible has a 5-year depreciable life for federal tax purposes

Alternative Energy Property Tax Credits

Current Status

- Most Tax Credits alive and extended for a few more years
- Grant program expired
 - Had to start prior to end of 2011
- Wind Tax Credits in Limbo (production and exchange for 30% credit)

Other Incentives for Building/Design

- Cost Segregation:
 - Creates Significant Cash flow savings for Building Owners
 - Much more universal applicability vs 179D
- Rehabilitation Tax Credits (buildings PIS prior to 1936)
- Research Tax Credit

QUESTIONS & ANSWERS

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