

Free Money

Building Owners May Be Overlooking Valuable Tax Deduction

Developers and owners may be overlooking a valuable federal tax deduction for energy-efficient systems installed in their buildings, according to officials at Engineered Tax Services, an engineering firm headquartered in West Palm Beach, Fla.

This federal tax deduction, available under Section 179D of the Internal Revenue Code, is available to owners for a portion of the costs of energy-efficient lighting systems, HVAC (heating, ventilation, and cooling) systems, and building envelopes installed since 2006 in a new or existing commercial building.

Qualifying commercial buildings include multifamily rental buildings of four stories or taller.

"We have found that less than 1 percent of eligible taxpayers have actually filed for these energy tax benefits," said company official Carol Hayward on a Webinar. Joel Ackerman, a CPA with the firm, noted, "What peo-

ple don't realize is that these endeavors to save on energy also have a tax advantage as well."

The tax deduction is equal to up to \$1.80 per square foot of building space for the costs of installing lighting systems, HVAC systems, and building envelopes that will use at least 50% less energy based on ASHRAE Standard 90.1 (2001 Guidelines). If only one or two of the three systems is installed, the deduction is up to 60 cents per system. A partial reduction is available for projected energy savings down to 16-2/3 percent.

To receive the deduction, the owner must commission an engineering study from a third party, which reviews the plans and specs, inspects the building, and certifies that the qualifying level of energy savings will be achieved. The tax deduction is generally claimed by the party that pays for the system(s). The deduction is claimed by the taxpayer for the tax year in which the costs were incurred, but unused amounts can be carried back or forward to other tax years. Taxpayers may also be able to amend a prior year tax return to claim the deduction and get a refund for systems already installed since 2006.


The officials said it's generally tough to qualify for the tax deduction for building envelope costs, but that lighting system retrofits represent "low hanging fruit."

Seeking the Section 179D deduction may not make sense in all cases, such as for low-cost systems or with smaller buildings.

CPAs Marianne Heard and Chris Pulick, of Kevin P. Martin & Associates, P.C. Braintree, Mass., indicated that for the past few years it probably did not always make sense to seek the tax deduction for projects like those assisted by housing tax credits. This was because the equity investors generally did not want any additional tax losses and were not willing to pay extra for them.

Heard and Pulick, however, have recently had a few inquiries on projects where the deduction might pencil out. "You have to have the right project to make it work," says Heard.

The pair noted that the deduction might be attractive, for example, for a large new markets tax credit project or a large market-rate apartment project. **TCA**



Level.

It's our way of doing business.

For the past 22 years, we've partnered with non-profits, faith-based organizations, and community groups throughout the East Coast to construct affordable and mixed-income housing. Our commitment to quality and sustainable housing for all is matched only by our solid promise of accountability and reliability along with our commitment to complete satisfaction.

We're ready to start when you are.

BOZZUTO
CONSTRUCTION

Mike Schlegel | 301-220-0100 | mschlegel@bozzuto.com