

179D Green Building Tax Deduction

Presented by
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Pay Less Tax.
Save More Money.™

Green Building History USGBC

Founded in 1996, the U. S. Green Building Council (USGBC) is the nation's foremost coalition of leaders from across the building industry who are working to promote buildings that are environmentally responsible, profitable, and healthy places to live and work. Breakthroughs in building science, technology and operations are now available to designers, builders, building owners and managers who want to build green and maximize both economic and environmental performance.

Green Building History USGBC



Green Building History:

- Green Building Council members developed and continue to refine LEED. The rating system addresses six major areas:
 - Sustainable Sites
 - Water Efficiency
 - ***Energy and atmosphere***
 - Materials and resources
 - Indoor environmental quality
 - Innovation and design process

Green Building History LEED



Purpose of LEED:

- Define “Green Building” by establishing a common standard of measurement
- Promote integrated, whole-building design practices
- Recognize environmental leadership in the building industry
- Stimulate green competition
- Raise consumer awareness of green building benefits
- Transform the building market

The State and Local Government Committee



Within the U.S. Green Building Council, the State and Local Government Committee seeks to develop a forum for the exchange of information among cities, counties and states to advance the successful implementation of green building programs. Since the building design and procurement processes for both the public and private sectors are typically guided by local ordinances and state regulations, local governments can encourage green buildings by mandating green design strategies for their own facilities, as well as providing incentives and guidelines for the private sector.

Green Building Becoming Law



Green Building Today:

- Since 2003: 418% increase in number of cities with Green Building programs
- April 2008: City of Dallas approves Green Building law
- April 2008: City of Los Angeles approves Green Building law
- DFW metro area: 150 buildings registered with US Green Building Council (USGBC)
- As of March 2007: 53 cities, 11 federal agencies, 17 states, 10 counties have passed Green Building requirements

"I'd say we're adding about five to 10 cities a month."

-Taryn Holowka, spokesperson for the U.S. Green Building Council

Polling Question



- How many of you have had clients affected by Green Building ordinances?
- If so, how have they responded? Have they benefited from Green Building Tax Deductions?

Building Green: Sustainable & Provides Tax Deductions



Green Building Programs:

- 9 out of 10 cities anticipated requiring in the next year that new city buildings be energy efficient, healthy and environmentally sustainable
- 87% of cities require, or anticipate requiring in the next year, that city government buildings undergoing major rehabilitation be energy efficient, healthy and environmentally sustainable
- 56% have a policy in place
- 32% anticipate they will adopt such a policy in the next year

Building Green: Sustainable & Provides Tax Deductions



What is the Green Building 179D Tax Deduction?

- Energy Policy Act of 2005 added section 179D to the Internal Revenue Code
- Installed as a part of:
 - The interior lighting systems,
 - The heating, cooling, ventilation, hot water systems, or
 - The building envelope
- 50% more efficient as compared to a reference building which meets the minimum requirements of ASHRAE Standard 90.1-2001
- Up to \$1.80 per square foot deduction for improving the energy efficiency of your existing commercial buildings or designing high efficiency into new building

Quiz Question

What is the amount of the full deduction if building is 50% more efficient?

- A. \$2.25 per square foot
- B. \$1.80 per square foot
- C. \$1.25 per square foot

Building Green: Sustainable & Provides Tax Deductions



Definition of Square Footage

- Sum of the floor areas of the conditioned spaces within the building, including basements, mezzanine, and intermediate-floored tiers, and penthouses with headroom height of 7.5 feet or greater.
- Measured from the exterior faces of exterior walls or from the centerline of walls separating buildings, but excludes covered walkways, open roofed-over areas, porches and similar spaces, pipe trenches, exterior terraces or steps, chimneys, roof overhangs, and similar features.

Energy Efficient Property



Examples of Energy Efficient Property:

- Lighting
 - Energy efficient lighting systems
 - Lighting control system (occupancy sensors/dimmable lighting)
- Envelope
 - Energy efficient windows (Low-E)
 - Highly reflective roofing
 - Enhanced roof and wall insulation
 - Light shelves

Energy Efficient Property



Examples of Energy Efficient Property:

- HVAC
 - High efficient/heating systems (condensing boilers)
 - High efficient cooling systems
 - Direct and/or indirect evaporative cooling systems
 - Energy recovery units
 - Geothermal heat pumps
 - Premium efficient motors
 - Variable speed fan and pumps
 - Building management systems
 - Solar systems (PV and water)

Partial Qualifying Property



Partial Deductions:

- If the total annual energy and power costs with respect to combined usage of the buildings heating, cooling & ventilation system and hot water system, the lighting system or the envelope property are decreased by 16 2/3%, a partial deduction is available
- The partial deduction is equal to the lesser of \$0.60 per square foot or the cost of the installed system
- If two systems each reach the 16 2/3% threshold, the deduction is \$1.20 per square foot

Partial Qualifying Property



Interior Lighting (interim rules):

- Special partial qualifying rules if installed before the date the Secretary issues final regulations (Notice 2006-52)
 - The lesser of \$0.60 per square foot or the cost of equipment is available for reductions in light power density (watts-per-square-foot) of 40% or more. The credit is prorated downward for lesser reductions, to as low as \$0.30 per square foot for a 25% reduction in lighting power density.

Partial Qualifying Property



Interior lighting (rule requirements):

- The requirements:
 - Reduction in lighting power of at least 25% (50% in case of warehouses) of the minimum requirements in Table 9.3.1.1 or Table 9.3.1.2 of Standard 90.1-2001
 - Have controls and circuitry that comply fully with the mandatory and prescriptive requirements of Standard 90.1-2001 (exceptions ... retrofits)
 - Include provisions for bi-level switching in all occupancies except hotel and motel guest rooms, store rooms, restrooms, & public lobbies
 - Meet the minimum requirements for calculated lighting levels as set forth in the IESNA Lighting Handbook, Performance & Application, 9th edition, 2000

Building Green: Sustainable & Provides Tax Deductions



Who Qualifies for the Green Building 179D Tax Deduction?:

- Commercial buildings located within the US, placed in service between 1-1-2006 through 12-31-2008 (anticipate extension)
 - If Tenant and Building Owner both paid for improvements, the deduction is split
- Excludes single-family homes and multi-family structures that have three or fewer stories above ground level
- The person primarily responsible for designing the property, instead of the owner of the property if the property is owned by a federal, state or local government, or a subdivision of one, including schools
 - The IRS must issue a regulation allowing the deduction to the allocation.

Quiz Question

What is the amount of the partial deduction if one system is 16 2/3% more efficient?

- A. \$1.25 per square foot
- B. \$0.75 per square foot
- C. \$0.60 per square foot

179D Case Studies

Property Type:	Manufacturing Facility		
Year Constructed:	2006	Building Size:	114,000 square feet
Energy Efficient Improvements:	High Efficiency Lighting, Upgraded Insulation, Upgraded HVAC Systems		
Reference Building Annual Energy Costs (per computer model):	\$68,501		
Actual Building Annual Costs (per model):	\$17,508		
Percent Energy Savings:	74%		
IRS Threshold for Full \$1.80/sqft 179D Deduction:	50%		
179D IRS Deduction			
Facility qualified for full \$1.80 per square foot deduction			\$205,200

179D Case Studies

Property Type:	Brewery		
Year Constructed:	2006	Building Size:	76,318 square feet
Energy Efficient Improvements:	High Efficiency Lighting and Controls, Upgraded Insulation, Upgraded HVAC Systems and Controls		
Reference Building Annual Energy Costs (per computer model):	\$49,596		
Actual Building Annual Costs (per model):	\$13,898		
Percent Energy Savings:	72%		
IRS Threshold for Full \$1.80/sqft 179D Deduction:	50%		
179D IRS Deduction			
Facility qualified for full \$1.80 per square foot deduction			\$137,372

179D Case Studies

Property Type:	Warehouse		
Year Constructed:	2008	Building Size:	373,922 square feet
Energy Efficient Improvements:	High Efficiency Lighting and Controls		
Reference Building Lighting Power Density:	1.534		
Actual Building Lighting Power Density:	.7514		
Percent Different:	51.02%		
IRS Threshold for Full \$0.60/sqft 179D Deduction:	50%		
179D IRS Deduction			
Facility qualified for \$0.60 per square foot deduction			\$224,353.20

Certification



Certification Facts:

- Must receive certification of energy savings from a qualified individual
 - “Unrelated” professional engineer or contractor licensed in the applicable state
- Must use Dept. of Energy approved modeling software
- Software compares actual building to reference building
 - Located in the same climate zone and otherwise comparable to the taxpayer's building except that it's interior lighting, heating, cooling, ventilation and hot water systems and building envelope meet the minimum requirements of Standard 90.1-2001

Certification



Required Contents of Certification of Energy Savings:

- Name, address, and telephone number of qualified individual
- Address of the building
- A statement that the relevant energy and power costs reduction requirements are met
- A statement that the reduction has been determined under the rules of Notice 2006-52/2008-40
- A statement that field inspections of the building have confirmed that it has met or will meet the relevant energy-savings targets and that the inspections were performed in accordance with the proper procedures.

Certification



Required Contents of Certification of Energy Savings:

- A statement that the building owner has received an explanation of the energy-efficiency features of the building and its projected annual energy savings
- A statement that qualified computer software was used to calculate energy and power consumption and costs, and identification of the software
- A list identifying the components of the interior light systems; heating, cooling, ventilation and hot water systems, and building envelope installed on or in the building; the energy-efficient features of the building; and its project annual energy costs.
- A perjury statement

Quiz Question

Anyone can perform Green Building 179D Certification

- A. True
- B. False

Pre-Engagement Process



SourceCorp Green Building Study Process/Overview:

- Preliminary review of the construction drawings and specifications
- Determine building qualifications
- Provide estimated benefit to CPA/client*

*Estimate provided free of charge

Engagement Process



SourceCorp Green Building Study Process/Overview:

- Professional engineer performs energy modeling and analysis
- Site visit performed
- Engineer follows the NREL (National Renewable Energy Laboratory) standard guides and checklists to verify that the property meets the energy savings targets and gathers any additional information not included in the plans
- Use industry-standard cost estimation techniques to determine the cost of the qualifying energy efficient property
- Finalize the section 179D study and provide an overview of the energy saving features

Engagement Process



Audit Support

- 40 hours of audit support provided
- As necessary, file a Form 8821 to be able to discuss the study with the agent
- For additional audit support, we can file a Form 2848 and work with you on providing the best audit defense for your client

How it Works



Current Year:

- Current year deduction reduces basis in property
- Deduction is shown as “Other Expense” on tax return

Previous Year:

- Previous returns need to be amended

How it Works



In Conjunction with a Cost Segregation Study:

- The basis is reduced by the amount of the deduction
- The cost of the energy efficient property is determined to establish the amount of the deduction

Quiz Question

Green Building 179D can be applied to buildings outside the US.

- A. True
- B. False

Contact Information



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