

## Improving cash flow with the Energy Efficient Commercial Building Deduction

Making your building more energy efficient saves money and can lead to tax deductions. The resulting increased cash flow will benefit your company.

### Overview

If your company owns or leases commercial buildings and you have constructed or retrofitted the property to be more energy efficient, you may be eligible for an accelerated deduction for part or all of the costs associated with the property. Incentives are available for:

- Interior lighting systems
- Heating, ventilating and air conditioning (HVAC) and hot water systems
- Building envelope

These incentives allow for the potential immediate expensing of costs that would otherwise be capitalized and depreciated over 39 years.

### Maximum deduction and qualifying properties

The Energy Improvement and Extension Act of 2008 extended the deduction for energy efficient commercial building properties (IRC §179D) until December 31, 2013. Originally part of the Energy Act of 2005, Internal Revenue Code section 179D allows for the deduction for part or all of the cost of energy-efficient commercial building or certain qualifying commercial building property. Qualifications and requirements include:

- The maximum deduction is \$1.80 x building square footage over the aggregate amount of the 179D deductions allowed with respect to the building for all prior tax years, including multiple taxpayers.
- The basis of the qualified property be reduced by any 179D deduction and the remaining asset value depreciated over the appropriate class life.
- Parking garages are eligible for the deduction.
- Recycling costs that may be capitalized can be considered for the deduction.
- Partial qualification is possible.



### Deduction requirements

In order to qualify for the deduction, energy efficient building property must satisfy the following conditions:

- Building is located in the U.S.
- Property is installed as part of interior lighting systems, HVAC and hot water systems, and/or the building envelope (insulation, exterior doors, exterior windows, certain roofing material).
- Certification that installation of such property will reduce total annual energy and power costs by 50% or more as compared to Std. 90.1-2001 (ASHRAE Reference Building), and reductions in any other energy uses, like power and refrigeration reductions are not taken into account.
- Qualified software programs must be used to calculate energy and power consumption.
- The taxpayer must obtain a certification with respect to the property.
- The qualified individual certifying the property must be an engineer or contractor licensed in the same jurisdiction as the proposed building.

### Increased cash flow benefit

Examples of tax savings and the increased cash flow derived from 179D are listed below:

Qualifying activities	Deduction amount	Amount immediately expensed	Cash value of upfront deduction (using 40% combined tax rate)	Overall net present value benefit over life of building (at 7% discount rate)
Construction of a new four-story 120,000 square foot office building that has design parameters exceeding that of the ASHRAE reference building in all areas, including interior lighting systems, HVAC and hot water systems and the building envelope.	Maximum deduction of \$1.80/ sq. foot	\$216,000	\$85,000	\$55,000
Retro-fitting of an existing 120,000 square foot building by replacing existing lighting systems with high efficiency lights combined with bi-level switching.	Partial deduction of \$.60/ sq. foot	\$72,000	\$28,000	\$18,000

### Deduction for public property

In the case of energy efficient commercial building property installed on or in a property owned by a Federal, State or local government entity, an allocation of the deduction can be made to the person primarily responsible for designing the property in lieu of the owner of such property. This designer could be an architect, engineer, contractor, environmental consultant or an energy services provider who created the technical specifications for making the building energy efficient.

### Don't overlook this opportunity

If you own or lease commercial buildings, RSM McGladrey's tax professionals can help you identify properties eligible for this deduction, assist in certifying the property and help you plan future improvements to make the most of this deduction.

### For more information, contact:

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