

AN EXPERT GUIDE TO:

The Section 179D Tax Deduction



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Profitable Tax Savings

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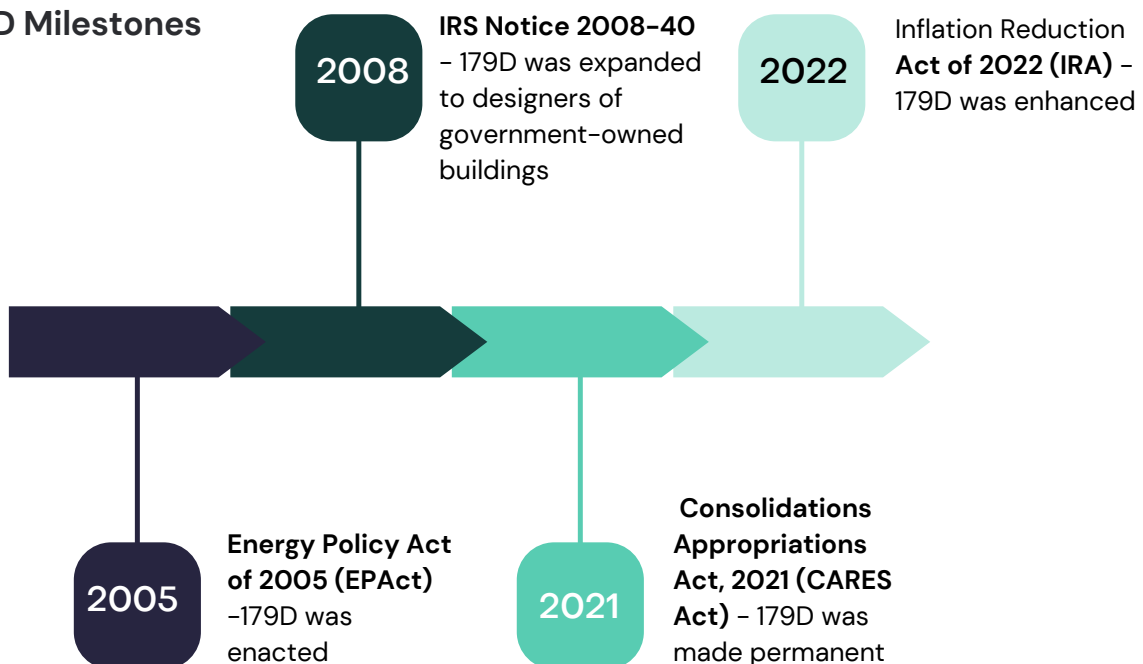
Section 179D Overview

The Section 179D tax deduction, also known as the Energy Efficient Commercial Buildings Deduction, is a key provision of the U.S. tax code that encourages the adoption of energy-efficient technologies in commercial buildings. This incentive is designed to offset the costs associated with making a building more energy-efficient and is part of broader efforts to promote environmental sustainability and reduce energy consumption in the commercial sector.

Section 179D offers a tax deduction for property owners, lessees, and designers who make qualifying energy-efficient improvements to their commercial buildings.



179D Milestones



Eligible Energy Efficient Equipment

To qualify for the 179D deduction, improvements must be made to the building's interior lighting systems, HVAC and hot water systems, or the building envelope. These components must meet minimum energy efficiency criteria set by The American Society of Heating, Refrigerating and Air-Conditioning Engineers (ASHRAE) 90.1 standard. It also must be placed in service in the year the deduction will be claimed. Below is a breakdown of the energy-efficient equipment and a few examples of eligible systems:



HVAC & Hot Water

- Air Handling Units
- Heat Pumps
- Fan Coil Units
- Variable Frequency Drives
- Boilers/Chillers
- Building Automation System



Interior Lighting

- LED Lighting
- Occupancy Sensors
- Vacancy Sensors
- Daylight Harvesting
- Building Automation System



Building Envelope

- Double-Pane Windows
- Insulation
- Reflective Roof Coatings
- Facade Materials



Commercial Real Estate Qualification

If you own a commercial or high rise residential (4+ stories above grade) building and make energy-efficient improvements to the building's interior lighting, heating, cooling, ventilation, hot water systems, or the building envelope, you may qualify for the 179D deduction.

Qualification Criteria

- Commercial or high-rise residential buildings
- Properties are located in the U.S.
- The building is heated and/or cooled*
- Eligible energy-efficient equipment has been installed on or in the building via a new construction, renovation, or addition/expansion project.

**Parking garages placed in service prior to 2023 are also eligible*

Who Can Take the Deduction?

- Building Owners
- Lessees
- REITs



How do Designers Qualify?

Designers

Designers can be allocated the 179D deduction from government and tax-exempt building owners.

Designers are defined as anyone who creates technical specifications for the installation of energy efficient property.

Examples:

- Architects
- Engineers
- Contractors
- Environmental Consultants
- Energy Service Providers

Who can allocate the deduction to the designers?

Government Entities: Public K-12 schools, public universities, military and federal entities, airport authorities, county/city/state entities

Tax-Exempt Entities: Universities, charter schools, hospitals, churches, Indian tribal government, Alaska Native Corporation



How is 179D Calculated?

The deduction rate is multiplied by the conditioned square feet of the building to determine the total 179D deduction, but cannot exceed the cost of the project. The deduction rate (dollars per square foot) is determined by the annual energy cost savings of the project through an energy modeling analysis. The analysis consists of comparing the building to an ASHRAE 90.1 minimum code standard.

Proposed Building

An energy model of the building that includes the new, energy efficient equipment that was installed.

vs.

Reference Building

An energy model of the building that includes the minimum standards as required by the building code.
(ASHRAE 90.1-2007)



179D Value - Original Method

The original calculation method allowed for a full deduction to be achieved through an analysis of the three energy-efficient systems in one energy model, or a partial deduction to be achieved through isolating each energy-efficient system into three separate models.

The Original Method

For projects that completed construction through December 31, 2022. To see qualification history for projects in all years, see [Appendix](#).

Energy Efficient Systems	Energy Cost Savings	Deduction Amount*
HVAC & Hot Water	15%	\$0.60/sq ft
Interior Lighting	25%	\$0.60/sq ft
Building Envelope	10%	\$0.60/sq ft
Combination of HVAC/IL/BE	50%	\$1.80/sq ft

Maximum Value = \$1.80/sq ft

**Inflation adjustments were applied to tax years beginning in 2021. See table below.*

Inflation Adjustments		
Tax Year	Partial	Full
2006-2020	NA	NA
2021	\$0.61/sq ft	\$1.82/sq ft
2022	\$0.63/sq ft	\$1.88/sq ft



179D Value - Updated Method

As a result of the Inflation Reduction Act, the maximum 179D deduction increased from a total of \$1.80/sq ft to \$5.00/sq ft. This rate can be achieved by meeting prevailing wage & apprenticeship requirements. In addition, the energy modeling methodology was refined to only one analysis of all three energy-efficient systems. The minimum annual energy cost savings requirement was reduced to 25%, with additional value coming from each % point above the minimum threshold, up to the original 50% qualification.

The New Updated Method

For projects that completed construction **after** December 31, 2022.

		Total Annual Energy & Power Costs		
		25% Reduction	Each Additional % Point	50% or Higher Reduction
Prevailing Wage & Apprenticeship	Meets	\$2.50/sq ft	\$0.10/sq ft	\$5.00/sq ft
	Does Not Meet	\$0.50/sq ft	\$0.02/sq ft	\$1.00/sq ft

Maximum Value = \$5.00/sq ft

**Inflation adjustments were applied to tax years beginning in 2021. See table below.*

Inflation Adjustments				
Year	Prevailing Wage & Apprenticeship	25% Reduction	Each Additional % Point	50% or Higher Reduction
2023	Meets	\$2.68/sq ft	\$0.11/sq ft	\$5.36/sq ft
	Does Not Meet	\$0.54/sq ft	\$0.02/sq ft	\$1.07/sq ft
2024	Meets	\$2.83/sq ft	\$0.11/sq ft	\$5.65/sq ft
	Does Not Meet	\$0.57/sq ft	\$0.02/sq ft	\$1.13/sq ft
2025	Meets	\$2.90/sq ft	\$0.12/sq ft	\$5.81/sq ft
	Does Not Meet	\$0.58/sq ft	\$0.02/sq ft	\$1.16/sq ft



Prevailing Wage and Apprenticeship Requirements

These requirements are designed to ensure that the construction and renovation of energy-efficient buildings not only contribute to environmental sustainability but also support fair labor practices.

Prevailing Wage Requirements

The prevailing wage, set by the Department of Labor, is the average wage for specific trades in a region. For the enhanced Section 179D deduction, it's required that all laborers and mechanics on qualifying energy-efficient projects are paid prevailing rates in the location of the project. Compliance involves proper recordkeeping to ensure all applicable employees hired by the owner, contractors, or subcontractors are paid at the proper rates.

Apprenticeship Requirements

Apprenticeship programs promote on-the-job training with classroom learning to build skills in many trades professions. For Section 179D eligibility, 15% (12.5% in 2023) of the total labor hours must be fulfilled by apprentices in registered programs. Compliance involves proper record-keeping of the hours worked by apprentices in each field of labor. If apprenticeship programs are not able to meet these requirements, the taxpayer may be eligible for a good faith exemption allowing them to still claim the bonus 179D deduction rates.



Summary of Changes from IRA

The enhancements introduced by the Inflation Reduction Act have increased the opportunities for commercial building owners and designers to invest in energy efficiency. By making the deduction more accessible, the government aims to encourage sustainable building practices, reduce energy consumption, and support environmental goals.



Increased Deduction – Deduction rates increased from \$1.80 per square foot to \$5.00+ per square foot.



Deduction Reset – There is no longer a lifetime maximum deduction for an individual property.



Tax-Exempt Entities – Deductions can now be allocated to designers from tax-exempt entities (previously only government agencies).



Results Analysis – Deduction is now calculated on a sliding scale with a threshold to qualify at 25% energy cost savings.



Alternative Method – Qualified retrofit projects can use a before and after look at the building to qualify in lieu of energy modeling. This method is awaiting more guidance from the IRS for implementation.

179D Study Process

179D Requirements for a Study

A 179D analysis evaluates the building's energy efficiency improvements against IRS and ASHRAE 90.1 requirements. The process involves several key steps, executed with the help of specialized consultants that have the appropriate licenses and understand the intricate details of tax law, engineering, and energy modeling. Below is a general outline of the steps involved in a Section 179D study:

1**Site Visit****1-2 days**

A qualified individual will verify the equipment installed in the property

2**Energy Analysis****4 to 6 weeks**

A specialist will determine the energy savings & deduction rate

3**Certification****1 week**

A qualified individual will certify that the analysis was performed correctly

4**Allocation Letter****1 week to 1 month**

A letter will be signed by the building owner & designer (for designers only)

5**Delivery****1 week**

The certification, Form 7205, and report will be provided to the client



179D Case Study

Case Study

Building Type
Industrial Facility

Square Feet
100,000 sq ft

Project
A renovation to the existing building that includes new HVAC rooftop units and an interior lighting upgrade to LED fixtures.

Placed in Service Date
June 2023

Explanation
The building owner was eligible to perform a 179D analysis due to the installation of new HVAC and interior lighting, energy-efficient equipment. A site visit and energy modeling analysis was performed, resulting in the below 179D deduction claimed in Tax Year 2023.



Energy Modeling Summary

System Analysis	Annual Energy Costs		Annual Energy Savings Costs	Threshold for Qualification	Deduction Rate	179D Deduction
HVAC & Interior Lighting	Proposed	\$63,790	52.94%	50%	\$5.36/sf	\$536,000
	Reference	\$135,560				

$$100,000 \times \$5.36 = \$536,000$$

Why TaxTaker?

Professional Expertise: Given the technical and regulatory complexities of a Section 179D study, engaging with firms that specialize in the 179D program is crucial. Specialists bring the necessary expertise and experience in engineering, tax law, and energy modeling to navigate the process effectively.

Qualified Providers: The 179D deduction is unique from other tax incentives, in that a qualified individual must visit the property and certify that the analysis has been performed properly. A qualified individual is someone who is not related to the taxpayer and is a licensed engineer or contractor in the location of the property, and has licensed jurisdiction in the state in which the building is put into service (i.e TaxTaker is currently licensed in 46 states).

Comprehensive Documentation: To remain in compliance with the 179D deduction, a study process will produce a project certification, prepared by a qualified individual. In addition, Form 7205 should be prepared and attached to the tax return for the tax year the 179D deduction is claimed. A final report should also be created to meet proper record-keeping guidelines as outlined by the IRS.

Allocation Letter (for designers): In the case of a designer claiming the 179D deduction, an allocation letter is required to be signed by an authorized representative of the building owner and designer. This letter should include project details such as the building address, placed in service date, and amount of the 179D deduction in addition to other IRS requirements.





When seeking to claim the Section 179D deduction for energy-efficient commercial building property, it's crucial to work with a knowledgeable and experienced provider. TaxTaker is an experienced tax consulting firm and can assist with the 179D deduction. Our experienced staff include:

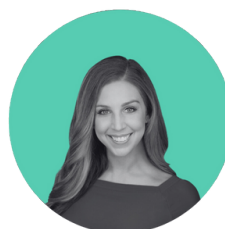
- **Certified Public Accountants (CPAs):** Can provide tax advice and help with filing for the deduction.
- **Licensed Professional Engineers:** Required for the site visit and certification process to verify the energy savings and resulting 179D deduction.

Why TaxTaker?

- We have all qualified professionals in house and offer turn-key service.
- Our experts have **completed over 1,500 successful 179D** certifications.
- We offer additional building incentives including:
 - 45L - New Energy Efficient Home Credit
 - Cost Segregation
 - Investment Tax Credits
 - R&D Tax Credits



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Join us in taking advantage of this unprecedented opportunity.



Appendix

Full Qualification History of the Section 179D Deduction:

Section 179D - Energy Cost Savings Qualification Summary

Code/Notices	Effective Dates	All 3 Systems	HVAC & Hot Water	Interior Lighting	Building Envelope	Interim Lighting	ASHRAE 90.1 Standards
Notice 2006-52	1/1/06-12/31/08	50%	16 2/3%	16 2/3%	16 2/3%	25% - 40% (50% for warehouses)	2001
Notice 2008-40	1/1/06-12/31/13		20%	20%	10%		2001
Notice 2012-26	3/12/12-12/31/22		15%	25%	10%		2001 (through 12/31/15) 2007 (after 12/31/15)
IRA of 2022	1/1/23-12/31/32	25-50%	NA	NA	NA	NA	2007 (through 12/31/26) 2019 (through 12/31/32)

