



FINDING THE GREEN FOR THINKING GREEN

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Recently featured in the Hampton Roads Associations for Commercial Real Estate (HRACRE) Spring 2011 E-Newsletter.

Information about energy efficiency incentives has been confusing to say the least. Trying to sift through terminology (ASHRAE, ARRA, SEER, LEED, EPCACT, CHP, SRCC, etc.) and IRS code sections (179/179D, 1603, 45, 48, etc.), much less “is it a credit or a deduction or a rebate or a grant?” is enough to make the AFLAC duck say “huh?”.

The following is a summary of an incentive that is currently creating a lot of buzz in the commercial building arena.

This incentive is NOT a tax credit. It is a tax deduction, and it has nothing to do with how much money you paid for something. Earned by meeting efficiency requirements related to the building envelope, lighting and HVAC systems, it is known as the Commercial Building Deduction (IRS Section 179D). The buzz is being generated as owners are focusing on operational costs and the financial yields to be had incorporating energy efficient features (not to mention regulatory compliance with issues such as the T12 lighting phase-out). Benefits range from \$.60 to \$1.80 per square foot. There will be instances where features/upgrades may qualify for one of the three aspects (@ \$.60 per square foot), and others that will generate the full \$1.80, and some very nice buildings that will not qualify for any. It appears there is some low-hanging fruit in the lighting area, especially in large spaces.

For this incentive especially, it is important to ask yourself three questions:

1. What is the prize (\$.60 – \$1.80 per square foot tax deduction)?

2. What is the qualification process and who has to be involved?
3. What does the qualification process cost and is it (the resulting benefit) worth it?

For tax purposes, buildings have a useful life over which depreciation deductions are allowed. Related tax benefits are all about seizing opportunities to accelerate (bigger/sooner) deductions. Where “cost segregation studies” accelerate allowable depreciation by segregating the building and its components into classifications that are allowed shorter useful lives, Section 179D does so by, in essence, awarding extra points for incorporating energy efficient features. To the extent that these extra deductions can save tax (owners’ marginal tax % x additional deductions) real dollars can be factored into the return on investment calculation, along with other potential incentives, as projects are studied.

Part of the buzz with Section 179D has to do with a unique



feature. Ordinarily, the entity that incurred the cost of building/renovating/upgrading would be the only party with a legitimate shot at the tax benefits. To encourage building designers to incorporate energy efficiency features, this incentive can also be claimed by the person/entity primarily responsible for the design (e.g., architect, engineer, design/build firm) of a government-owned building.

Another incentive to keep an eye on is simply called the Energy Credit (part of IRS Form 3468). Although we're hearing more conservation than action in this area, in the right situation it could prove very lucrative (10% – 30% of qualifying costs with no maximum benefit limitation). Plus, at least through 2011, a cash grant in lieu of the tax credits can be requested. This incentive rewards utilization of solar, geothermal, or wind (along with some other energy sources) in a commercial setting.

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