

experience expertise

ENERGY EFFICIENT COMMERCIAL BUILDING PROPERTY DEDUCTIONS

If your company is constructing new real estate or improving existing real estate holdings, you want to take advantage of any available government incentives to help offset these costs. **BKD can help.** The Energy Efficient Commercial Building Property (179D) deduction provides a tax benefit to employ energy-efficient building systems that reduce energy use in commercial real estate. BKD's tax and engineering professionals can help you evaluate whether your building is eligible for 179D deductions and assist you in claiming them.

What is 179D?

The 179D tax deduction allows a deduction of up to \$1.80 per square foot for the installation of systems that reduce total energy use by 50 percent or a deduction of up to 60 cents per square foot each for reducing energy use in the lighting, HVAC or building envelope systems. For the purpose of the deduction, the energy use reductions are compared to 2001 standards under the American Society of Heating, Refrigerating and Air-Conditioning Engineers Standard 90.1-2001.

Available Deductions Under 179D

- Up to \$1.80 per square foot for a total energy use reduction of 50 percent or more
- OR**
- Up to 60 cents per square foot for a total energy use reduction of 20 percent or more related to the lighting system
 - Up to 60 cents per square foot for a total energy use reduction of 20 percent related to the HVAC system
 - Up to 60 cents per square foot for a total energy use reduction of 10 percent related to the building envelope

Qualifying Projects

There are four types of projects that may qualify for the 179D deduction:

1. New construction of a commercial use property
2. New construction of an apartment building with more than three floors above ground
3. New construction of government-owned buildings (In this case, the deduction may be allocated to the firm responsible for the design of the building or system.)
4. Improvements, additions or system retrofit projects for existing buildings described in 1, 2 or 3

Incentive for Designers of Government-Owned Buildings

For buildings owned by federal, state or local governments that qualify for the 179D deduction, the government agency may allocate that deduction to the firm or firms responsible for designing the property. This represents a significant opportunity for architecture, engineering and design-and-build firms working on government-owned projects. The result is permanent current-year tax savings for the design firm.

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Example of Tax Savings for a Designer of Government-Owned Property

While actual tax savings resulting from a 179D deduction will vary depending on the qualification level of the project and the designer's specific tax position, here is an illustration of the potential tax savings available:



If an architect designs a 200,000-square-foot building for a state-owned university and that building qualifies for a full \$1.80-per-square-foot tax deduction, the architect can obtain a letter signed by a representative of the university allocating the deduction to them. Assuming a 35 percent tax rate for the architect, this would result in tax savings of \$126,000 in the current year. If the building was completed in any of the last three years, the architect has the ability to amend the tax return filed in the year the building was completed and request a refund from the government for the \$126,000.

Why Choose BKD?

BKD's engineering and tax professionals will help you obtain the various certifications and government building allocation letters required to claim the 179D deduction. Our professionals will work with you to evaluate whether a particular property is likely to qualify. Our engineers then work with third-party engineers or contractors to compile the required documentation and calculate your deduction. This turnkey approach to the 179D study will provide you with a single report designed to help you meet the documentation requirements outlined in 179D and related IRS guidance.

For More Information

For more information about BKD's 179D solutions, contact your BKD advisor or:

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