

Industrial Manufacturing

Did you make energy-saving improvements in 2008 that qualify for a tax deduction?

Good business people always look for ways to cut taxes.

This search is even more crucial in the current economic environment.

Businesses should not overlook an immediate tax deduction available for expenses making certain energy-saving building improvements.



Deductions for improvements made in 2006, 2007 and 2008 could be equivalent to up to \$1.80 per square foot for investments in buildings that attain specified energy cost reductions. These reductions must extend beyond the requirements of the American Society of Heating, Refrigerating and Air-Conditioning Engineers building code standards in Standard 90.1-2001.

The \$1.80 maximum incentive, which is a one-time deduction, also contains potential subsystem tax deductions that include a maximum of 60 cents per square foot for lighting and lighting controls; HVAC (heating ventilation and air conditioning); and the building envelope, which encompasses the perimeter of the building including roof, walls, windows, doors and floor or foundation.

The lighting deduction is the most frequently used business deduction from the Energy Policy Act. The reason for its popularity is that the qualification requirements for this deduction are easier to meet than for the HVAC or the building envelope – areas that require energy modeling.

In addition, the lighting efficiency improvements have been estimated to result in payback within two years of installation, resulting in more ease in winning over budget allotments from executives, who will be able to see a quick payback. Rising electricity costs, more thorough state and local building energy codes and improved lighting products are also adding to the appeal of this deduction.

To receive a deduction of 30 cents per square foot for lighting, a business must reduce the wattage used within its building by 25 percent from Standard 90.1-2001 levels. A maximum deduction of 60 cents per square foot is allowed if wattage use is reduced by 40 percent.

To prove to the IRS that a business complies with the wattage reduction specified, the business must prepare a spreadsheet to demonstrate that the project meets the Energy Policy Act watts-per-square-foot requirements. A written energy plan, a certification and an inspection document must also be available for IRS review to qualify under the act.

A business must also incorporate bi-level switching, which by definition means that there must be two levels of light other than “off” in all spaces. A dimmer can meet this requirement because it will supply multiple levels of light. Two or more switches controlling the fixtures will satisfy this requirement.

An illustration shows how this economic benefit can be quite advantageous. If a 100,000-square-foot building qualifies to have the maximum incentive, it will receive a \$60,000 federal income tax deduction. Depending on its state location, it may also qualify for an equivalent \$60,000 state income tax deduction.

The commercial building tax deduction, Section 1331, allows for a deduction for expenses related to the installation and design of energy-efficient commercial building systems.

This deduction may be claimed only after the taxpayer has obtained a certificate from an engineer or a contractor who is properly certified or licensed as a professional engineer or contractor in the jurisdiction where the building is located.

Besides the federal incentives available, 33 states currently have higher lighting standards and allow companies to qualify for the 60 cents per square foot lighting deduction simply by meeting the federal requirements. These states include Arkansas, California, Colorado, Connecticut, Florida, Georgia, Idaho, Illinois, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Montana, Nebraska, New Hampshire, New Jersey, New Mexico, New York, Nevada, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Utah, Vermont, Virginia, Washington and West Virginia.

The Energy Policy Act also contains benefits for aiding the government to save money. This incentive is aimed at designers and gives them an opportunity to design government buildings.

It applies to federal, state and local governments and includes K-12 public schools. This is the first tax incentive offered for building design.

The U.S. Green Building Council's LEED (Leadership in Energy and Environmental Design) buildings also are reaping the advantages of the act's tax benefits. LEED certification, which requires compliance with building code Standard 90.1-2004, is the standard for best-of-breed sustainable buildings. Therefore, if a building is LEED certified, it will more than likely qualify to obtain tax benefits under the Energy Policy Act.

11311 McCormick Road, Suite 100
Hunt Valley, MD 21031
410-296-6200

70 Thomas Johnson Drive, Suite100
Frederick, MD 21702
301-662-2400

www.mksh.com