Answers to Your Section 179D Questions

Many energy tax incentives have recently been updated or extended and are now available for buildings placed in service through 2020. One tax incentive in particular relates to the design and construction of energy-efficient commercial building property, and remains underutilized because many taxpayers do not know it exists.

Intended to offset some of the costs of qualifying energy-efficient improvements to commercial buildings, the deduction allows taxpayers to take an immediate expense for the cost of property that would normally be recovered through depreciation over as many as 39 years.

To help you better understand the Section 179D energy tax deduction and how it may be able to benefit your business, the tax professionals at Cherry Bekaert have put together the following list of frequently asked questions.

What Qualifies for Section 179D?

Energy-efficient improvements (i.e., interior lighting, systems, heating, cooling, ventilation and hot water systems) that reduce total annual energy/power costs by 50%. Partial deductions are allowed. Energy simulation is required to justify the deduction. Inspection and testing must be completed by a qualified engineer or contractor registered in the jurisdiction.

How Much is the Deduction?

Max deduction is $1.80/sq. ft. for a 50% reduction in total annual energy/power costs, not to exceed the amount equal to the cost of energy-efficient commercial building property placed in service during the taxable year. Partial deduction is 60¢/sq. ft. for a 25-40% reduction in lighting power density (50% for warehouse).

What is Required in Order to Take the Deduction?

A energy efficient certification is required to be completed by an independent third-party. The certification includes both software modeling to quantify the deduction and a site visit to ensure the components are installed as designed. Cherry Bekaert provides tax expertise to verify the deduction is appropriate and correctly filed on the tax returns. We work closely with our qualified engineering partners to obtain the certification for all qualified projects.
What Qualifies?
- Commercial buildings (any size)
- Apartments (4 or more stories) for lease
- Commercial energy renovations

Who Qualifies?
- Building owner at the time of building improvements
- Designers for public buildings (e.g., engineer, contractor, architect, environmental consultant or energy services provider)

What is the Eligibility Timeframe?
- Units must be completed or renovated after December 31, 2005, and before January 1, 2021

What Do I Need From the Builder?
- Current full set of architectural plans, mechanical and electrical drawings, plus specifications for lighting, building envelope (insulation, doors and windows) and HVAC system
- Date property was placed in service
- A contact person and phone number

What Do I Get From a 179D Review?
- Cherry Bekaert Section 179D Pre-Certification Review, including scoping estimate.
- High-level analysis of building (including Review building lighting, HVAC and envelope systems for possible deductions) to determine if building qualifies for the energy deduction.
- Estimate of energy deduction and Return on Investment analysis to help explain tax and savings benefits.

How will the Section 179D Deduction Affect My Tax Return?
- Energy deduction will directly reduce tax income in the year placed in service and will reduce the depreciation expense of the asset.
- Typically can take the deduction for earlier years without amending returns.

Talk to your Cherry Bekaert tax advisor today and see what incentives may still be available to you. With proper planning, you can ensure to see the green in your green building.