



We offer accurate calculations, modeling, certifications and inspection services related to § 179D of the Internal Revenue Code (IRC) enacted in § 1331 of the 2005 Energy Policy Act (EPAAct 2005) and noted in Internal Revenue Service (IRS) Notice 2006-52.

Energy Policy Act (2005)

U.S. Energy Engineers provides all necessary documentation and requirements for organizations to get the maximum tax deduction benefits. Specifically, § 179D of the energy tax code provides federal tax deductions for energy efficient property related to a commercial building's envelope, interior lighting, HVAC and service hot water (SHW) systems.

Understanding Energy Policy Act 2005

The Energy Policy Act of 2005 (EPAAct) contains a variety of tax credits and deductions for business and consumers. The commercial and industrial building tax deduction is designed to encourage investment in energy-efficient designs to reduce energy utility. This provision allows a special deduction for expenses incurred for energy-efficient commercial or industrial building properties. Lighting and HVAC products and systems are ideally positioned for deployment using the deduction provision. The 2005 Energy Policy Act sets minimum efficiency regulations and provides tax incentives and research investment for lamps, ballasts, fixtures, LEDs, Transformers, Electrical Equipment, Motors, Appliances and others.

What are the Incentives?

EPAAct 2005 tax deductions are based on a systems approach where energy-savings targets for each type of system are covered (interior lighting, HVAC/hot water, or building envelope). Meeting any of the three targets will enable building owners to demonstrate qualification for the deduction. If a property does not qualify for the \$1.80 tax deduction, but one of the qualifying systems meets its designated energy-savings target, then the property will be eligible for a partial tax deduction.



Tax Deductions for Commercial/Industrial Buildings

EPAAct provides accelerated tax deduction incentives for energy efficient lighting upgrades completed in 2006, 2007 and 2008. For lighting system upgrades, building owner deductions are applicable at a rate of \$.30 to \$.60 per square foot if light power density is 25% to 40% below ASHRAE/IESNA 90 standard. A deduction of \$1.80 per square foot can be made for property 50% more efficient than a building designed to ASHRAE/IESNA standard 90.1-2001 lighting, HVAC systems, building envelope)

- One-third of the incentive is available separately for each of the main building systems:
 - Envelope - \$0.60/ft²
 - HVAC - \$0.60/ft²
 - Lighting - \$0.60/ft²
- Interim targets for lighting make these available immediately.
- Incentives are for projects started January 1, 2006 through December 31 2013.



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How do the deductions work?

The owner (or designer in the case of publicly-owned buildings) can take the deduction in the year the property was placed in service. The building or system must be certified, with inspection and testing, as meeting the energy cost savings goal according to rules to be issued by the IRS in consultation with the Department of Energy (DOE). In the case of whole building analysis, certification must establish compliance using software that is certified by the DOE as meeting requirements that IRS established for the tax code. Calculations and certifications can only be performed by eligible third parties such as U.S. Energy Engineers, who are not related or affiliated with the organization whose building is to be certified. In the case of lighting systems, simpler calculation methods should be possible. In addition, the property must 1) be otherwise depreciable property, 2) located in the United States, 3) paid to be constructed by the taxpayer seeking the deduction.

Who can claim the tax deduction?

In the case of privately owned buildings, the tax deduction is earned by the owner, person or entity that paid to have the building constructed or renovated. In the case of publicly owned (Federal, State or local government or a political subdivision of one) buildings, the law states that the Secretary of the Treasury will create a regulation:

“to allow allocation of the deduction to the person primarily responsible for designing the property in lieu of the owner of such property. Such person will be treated as the taxpayer for purposes of this deduction.”

The tax deduction is allowable in the year in which the energy-efficient property is placed in service.

ENERGY POLICY ACT (2005) SUMMARY REQUIREMENTS

1. Whole Building (\$1.80/ft²)
 - 50% Energy Cost Reduction below standard
2. Permanent Rules partial deduction (\$0.60/ft²)
 - Overall Energy Cost Reduction of 1 2/3 % below standard for:
 - Lighting or
 - HVAC or
 - Building Envelope
3. Interim Lighting Rules (\$0.30/ft²-\$0.60/ft²)
 - Between 25% and 40% prescribed Light Power Density (LPD) reduction below standard