ARE YOU READY TO TAKE ADVANTAGE OF THE NEW COMMERCIAL TAX INCENTIVES?

INTRODUCTION
You may be eligible for a tax deduction of up to $1.80 per square foot for improving the energy efficiency of your existing commercial buildings or designing high efficiency into new buildings.

The Energy Policy Act of 2005 includes a tax deduction for investments in “energy-efficient commercial building property” designed to significantly reduce the heating, cooling, water heating, and interior lighting energy cost of new or existing commercial buildings. To be eligible, the energy-efficient commercial building property—such as a state-of-the-art lighting system—must be placed in service between January 1, 2006 and December 31, 2008.

To qualify for the full deduction, a building owner or tenant must make investments designed to reduce energy costs by 50% or more. A partial deduction of $0.60 per square foot is available for investments in one of three systems—lighting; heating and cooling; or building envelope—designed to reduce energy costs by 16 and 2/3% (i.e., one-third of the 50% requirement).

Tax deductions reduce your overall taxable income with the value of the deduction dependent on your tax bracket. Tax credits, such as the ones provided for consumers in the 2005 Energy Policy Act, reduce the amount of tax you owe dollar for dollar.

Who Can Benefit from the Deduction?
The person or organization that pays for construction is generally the recipient of the deduction. This is usually the building owner, but for some HVAC or lighting efficiency projects, it could be the tenant.

For government-owned buildings, the person primarily responsible for designing the building or project may be able to claim the deduction.

How Can I Qualify For The Tax Deduction?
To apply for the tax deduction, you must use one of the software tools approved by the Department of Energy. For a complete list of approved software, visit www.eere.energy.gov/buildings/info/qualified_software.

For more information, visit these websites:
- www.energystar.gov/taxcredits
  The ENERGY STAR website includes links to more detailed information, as well as cost-effective solutions for improving the energy efficiency of your buildings.
- www.efficientbuildings.org
  Sponsored by the Commercial Building Tax Deduction Coalition, including business, trade, government, energy efficiency, and other groups convened by the National Electrical Manufacturers Association.
- www.energytaxincentives.org
  Sponsored by the Tax Incentives Assistance Project (TIAP), a coalition of public interest non-profit, government, and other organizations in the energy efficiency field.

ENERGY STAR CAN HELP
These three steps are the cornerstone of many effective energy savings programs, and will help you identify the best opportunities to qualify for the tax deduction.

1. Establish the energy use of your building(s) and set a savings goal—Take the ENERGY STAR Building Challenge

It is hard to manage what we do not measure. With new easy to use energy use tracking tools, you can establish the current energy use of your building(s) and determine a reasonable energy savings goal.

Here’s how:
- Assess the current energy use of your building(s) to establish a reference using EPA’s national energy.
performance rating system (www.energystar.gov/benchmark), a
free online tool that provides many types of buildings with a score
on a simple 1-to-100 scale, 1 being the least efficient and 100 being
the most.

- Set appropriate goals for your business. EPA encourages the
  establishment of a simple 10 percent savings goal to start and
  your participation in the national ENERGY STAR Building
  Challenge (www.energystar.gov/challenge). Many
  organizations are finding this to be an effective savings
  strategy. For individual buildings, you may find the opportunity
  for much greater savings. The approximately 2,600 buildings
  across the country that have earned the ENERGY STAR use
  about 40% less energy than typical buildings—your lower-
  performing buildings may offer savings of 50% or more.

The table below is a general guide to interpreting the ratings for
your building(s).

2. Design New Buildings to Achieve Top Energy Efficiency
To qualify for the tax incentive by demonstrating that the code-
regulated systems in a new building are designed to save 50% of
the energy cost, the design team must set a clear goal,
supported by good technology and carefully integrated systems.
EPA can help you set energy efficiency targets for your new
buildings at the design stage, showing you how your building
would rate if operating today. Designing for top efficiency can
now bring a tax benefit as well as EPA’s “Designed to Earn the
ENERGY STAR” recognition and years of energy bill savings.

Here’s how:
- Estimate the building’s total energy budget, and use EPA’s
  Target Finder (www.energystar.gov/newbuildingdesign) to
  compare it with existing buildings of a similar type. Make sure
  the projected energy budget includes all energy uses, not just
  those systems covered by the energy code.
- Apply for the “Designed to Earn the ENERGY STAR” recognition
  for building designs with estimated energy performance among
  the nation’s best.

3. Improve Lighting Systems
Improving your lighting systems is one of the first steps EPA
recommends to increase the efficiency of your buildings—
whether you are retrofitting existing buildings or designing
new buildings. This is not only because lighting upgrades
are so cost-effective, but also because less heat is generated
from efficient lighting systems, affecting the proper sizing of
more capital-intensive heating and cooling systems. As outlined
in the ENERGY STAR Building Upgrade Manual
(www.energystar.gov/BldgManual), a strategy that combines
efficient lighting technologies, controls, and appropriate light
levels is the most effective approach to meeting energy
efficiency goals, including those required to qualify for the partial
tax deduction.

You may qualify for a deduction of $0.60 per square foot if the
lighting system employs dual switching (ability to switch roughly
half the lights off and still have fairly uniform light distribution)
and reduces installed lighting power by at least 25% from values
As lighting power reductions climb from 25% to 40%, the
deduction is increased proportionally, up to $0.60 for a 40%
power reduction (plus the dual switching). This prorated credit
does not apply to warehouse lighting. For a typical building, a
lighting power reduction of 40% increases the building’s
ENERGY STAR rating by about 10 points.

CONSULT A TAX PROFESSIONAL
The steps outlined above should help you improve the efficiency
of your buildings and prepare for the new tax incentives. But only
a tax attorney or other professional can provide tax advice.