

Federal Energy Policy Act Commercial and Industrial Building Tax Deduction Benefits

The Federal Government has a very attractive but little-known tax deduction benefit for commercial building owners and tenants who reduce building energy use. The Energy Act of 2005 offers up to 1.80 per square foot of building space for energy reductions in the areas of:

Interior Lighting Systems
Heating/Cooling/HVAC
Building Envelope

EPAct effective dates are from January 1, 2006 through December 31, 2008. This tax deduction acts as an accelerated Commercial Building Depreciation for qualifying energy efficient property placed in service during this period of time. The 179D deduction can be taken 100% in the same tax year, or carried forward to subsequent years.

This program is ideal for new construction, energy saving building retrofits, and new equipment put in service as part of Green Building, LEED or other State or local utility incentive programs. This Federal Energy Policy benefit is in addition to these other programs.

Our consulting service verifies and certifies required energy savings thresholds through building energy use analysis and engineering calculation requirements and provides all of the documentation necessary to qualify for the maximum deduction. Consulting assistance is also provided to upgrade space or systems to meet minimum energy thresholds if necessary. 10% of the deduction certified is charged which covers all costs and fees for this service.

Good News For California. The Energy Policy Act is a national policy based upon reference buildings that meet ASHREA 2001 standards. These are low, easy to qualify standards for California, who leads the nation in progressive energy efficiency policies. California Title 24 new construction requirements meet required EPAct energy requirement thresholds in almost every case.

The complete and comprehensive energy savings program for a commercial building might include all of the following:

- Energy Efficient reduced demand/Sustainable Green Building Design
- Cost savings from energy equipment retrofits
- State and local utility program incentives and retrofit rebates
- Acquisition of maximum EPAct tax deduction per sq ft of building space*

The EPAct tax deduction effectively serves as the final benefit for commercial building energy efficiency initiatives.

The Energy Policy Act

Who Qualifies?

An owner or a lessee of a commercial building. Non-profits organizations are not eligible.

Qualifying Property

Depreciable property in the United States that meets 90.1-2001 ASHREA standards, and is property installed as part of the interior lighting systems, heating, cooling, ventilation, and hot water systems or the building envelope. Conditioned space with equipment recently added, retrofitted or property which is planned to be installed as part of new construction or an energy efficiency program.

Maximum Amount Of Deduction

The deduction for the cost of energy efficient commercial building property installed on or in a building shall not exceed 1.80 per sq ft . Two or more taxpayers who install energy efficient commercial building property may share the tax deduction benefit. State or Government non-taxable entities may transfer this tax deduction benefit to the systems designer/installer.

Building Property May Be Certified as part of EAct Permanent Rule or Interim Rule calculations.

Our engineers will calculate EAct tax deduction qualification based upon a whole building energy use analysis or analysis of separate sub-systems of any combination of Interior Lighting, HVAC, or building envelope. Each partially qualifying building space or system can receive a percentage of the tax deduction according to EAct energy efficiency calculations, even if the entire building does not meet all energy efficiency thresholds.

Method of Computation

The Performance Rating Method is used to compute percentage reductions in total energy and power costs as compared to reference building standards required by the act. Occupancy loads, HVAC and related equipment, Infiltration, and Luminaire power for interior lighting systems are integrated into specifically required software programs for this analysis.

Certification

Before a taxpayer may claim the 179D deduction with respect to property installed on or in a commercial building, the taxpayer must obtain a certification with respect to the property. Certifications must be provided by qualified individuals and include required documentation for the taxpayer including:

- Certification Statements as required for Building System
- Explanation and energy efficiency features descriptions for taxpayer
- Field Inspection Certifications
- Required qualified software program utilization output
- Qualifying components schedule and descriptions

EPAct Tax Deduction Processing For Commercial/Industrial Buildings

The EPAct Tax Deduction benefit has a defined schedule, and ends at the end of 2008. In addition, building owners and tenants are anxious to apply this deduction to the current tax year, or include existing or planned new construction or retrofit projects in the scope of this benefit. With this in mind, every effort has been made to streamline the EPAct tax deduction certification process.

By following this well-defined process closely you can have your tax deduction certification in as little as one week. Because of the technical nature of this work our intent is to give your process intense focus and commitment for a short period of time and get your certification complete, rather than handling too many projects at the same time. Our mutual expectation is for you to provide resources and access to personnel we need to complete this work for you quickly.

Step One: Project Initiation and Pre-Audit

At our first meeting we will meet with your internal stakeholders to review our process, execute our consulting agreement, do a building pre-audit including taking pictures for our engineers, and pick up plans and documents we need. (See plans and documents list at end of this document). A tax deduction target qualification determination will be made as to whether to consider the whole building or separate subsystems for the deduction.

Step Two: Identification of Conformance Opportunity for Non-qualifying Space

In many cases there are simple retrofits or technical additions to building HVAC, Interior Lighting, or Building Envelope systems to achieve EPAct tax deduction thresholds. We will provide consultation and recommendations to help you consider any changes that might result in further energy efficiencies and a bigger tax deduction. You are not required to make any changes to your building, but often times these can be paid for or financed through utility rebate or other programs to create a more compelling efficiency cost savings equation. New initiatives will still qualify if they are 'planned for' and their implementation is subsequently verified.

Step Three: Additional Needs and Gap Analysis

Taking all relevant factors and information into consideration our engineers may request additional plans or documents and need to do an additional on-site audit of systems or equipment. Calculations that are within tighter energy threshold tolerances may need to be closely examined in relation with one another to achieve overall tax deduction targets. We will have ongoing communication by telephone and email to support the process as required.

Step Four: Partial Certification or Full Certification

We will provide two full sets of documentation for certification of the 179D Federal tax deduction as required by the Energy Policy Act. We will review the findings with you, including each calculation and systems efficiencies. We will demonstrate the separate

deduction qualification or percentage of deduction qualification that result in your total tax deduction. You will have the complete documentation to satisfy the IRS and your financial officers or advisors. Payment for consulting services, based upon 10% of the tax deduction certified will be due and payable upon presentation of the certification documents. We will produce one set of documents for each commercial building. In the case of clients with multiple buildings, each building/project will be paid for when delivered, even though it will be beneficial to aggregate the entire tax deduction for all properties for a single submission. We guarantee your federal tax deduction and will refund any fees or percentage of fees paid if the IRS denies the entire or part of your 179D deduction. All plans and documents will be returned to you at this time.

**** For Energy Efficiency Clients Who Work For Government Non-taxable Entities**

The EPA Act federal tax deduction benefit can be transferred to the designer or installer of the energy efficient property or equipment. In this case, the same consulting agreement is executed. Additionally, included in the first step is a transfer of Tax Deduction benefit letter that we will draft for you. Securing this signed letter from the government client is a requirement to move forward with subsequent steps of the certification process. Government clients will be provided an additional set of energy efficiency certification documents that relate specifically to the work completed by the designer/installer.

Other Services:

We can assist with securing utility rebates and retrofit client recommendations. We work closely with a group of clients who work within the scope and objectives of energy efficiency efforts. Our engineers also provide in-depth consulting and design of LEED qualified or Green building systems and new technology approaches if desired. Additionally we have CPA advisors who can work with more complicated corporate finances and tax filing questions on a consulting basis where needed.

Contact Information:

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Documents and Plans

For maximum efficiency, we will need to access all of the documents and plans you may have related to each building targeted for the tax deduction (including covered parking).

Although all are not required in every case please provide as many of the following as you can:

Mechanical Drawings-

- Insulation
- Wiring
- Central plant
- Heating and Cooling
- Water Pumping
- Submittals of main equipment used (serial numbers, brands, models helpful)

Architectural Elevations and roof/wall details

- Roof coatings
- Roof construction type

Title 24 Compliance Calculations

- Hard copies of .bld files including energy modeling information

Controls and Energy Management Systems if any

- Shop Drawings
- Submittals of controls

Hours Of Operation of Facility

- Occupancy (# of people)
- Shifts/Peak Times/Etc.

Lighting Layout

- Plans/Wiring/Spacing
- Fixture Schedule with technical descriptions
- Description of controls/Sensors/Switching

Window Details

- Types of windows if energy efficient
- Window films/coatings applied
- Window shades in service (type and approx. sq footage covered)

We can accommodate several different computer file formats. Let us know what you may have to make transfer of documents more efficient. Please contact us with any questions.