

THE REFERENCE

YOUR SPECIALTY TAX SOLUTION

“
At McGuire Sponsel,
we don't just
research possible
energy-efficient
building deductions,
but go one step
further and find
ways to maximize
them to the greatest
extent possible
and to successfully
withstand IRS
scrutiny.”

”
– David McGuire
Director
McGuire Sponsel

ENERGY-EFFICIENT BUILDING DEDUCTION

With the signing of the Energy Policy Act of 2005, qualified energy-efficient building improvements or new building constructions became eligible for a tax deduction of up to \$1.80 per square foot. To earn the maximum deduction, the energy-saving measures must address all three of the following building components:

- The interior lighting system
- The heating, cooling, ventilation and hot-water systems
- The building envelope (windows, walls, foundations, slabs, ceiling, roof system and insulation)

A partial deduction of up to \$0.60 per square foot is available for the cost of energy-saving improvements to any one of the above systems.

Stipulations of the deduction:

- The property must be placed in service after December 31, 2005, and before January 1, 2014.
- The property must be installed pursuant to a certified plan to reduce energy costs.
- Overall annual energy costs must be reduced by at least 50% in comparison to a reference building which meets the minimum requirements of ASHRAE Standard 90.1-2001.
- Efficiency measures must not discriminate between fuel sources.
- The depreciable basis of property is reduced by the amount of the current deduction.

Interim rules for partial deduction of energy-efficient lighting systems:

- To qualify for the full \$0.60 per square foot deduction, improvements must reduce the lighting power density (LPD) by 40% in comparison to the 2001 standard.
- If reduction of LPD is between 25% and 40%, the deduction is prorated.