Financial Incentives For Green Commercial Buildings

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Going green is typically associated with elevated costs, but federal tax incentives can actually make going green financially appealing for real estate developers and owners of private buildings. Also many of the financial incentives are tied to straight energy efficiency, not alternative energy sources.

There are a number of green financial incentives for businesses, but we've found many companies are unaware of what's available.

As green building techniques have become more prevalent, they have also become more affordable. Add to this the federal tax incentives for energy efficient buildings, along with numerous state and local tax incentives, makes an investment in a "green" building project a very attractive option.

It's a win-win for everyone involved. Building in an energy efficient manner provides lower energy costs and it's better for the environment. Federal financial incentives reward businesses, so it's the smart move right now .

Of course, the reward only goes to those who know about the sometimes obscure tax code. We often find the buildings already qualify, they just need the proper inspection and documentation .

179D Program

One type of "green" federal tax incentive to qualify for is the Section 179D deduction. This provision allows for a current deduction of up to $1.80 per square foot for "energy efficient commercial building property" placed in service during the year either as part of new construction or as part of a retrofit of an existing building.

In order to qualify as energy efficient commercial property, the property must be:

- Eligible for depreciation, not for personal use.
- Located in the United States.
- Installed as part of the three primary building components:
    - Interior lighting systems,
    - Heating, cooling, ventilation or hot water systems, or
    - Building envelope.

- Certified in accordance with IRS standards as being part of a plan designed to reduce the total annual energy and power costs with respect to these systems by 50 percent or more in comparison to a reference building meeting the minimum requirements under the law using methods of calculation as prescribed by the IRS. Even better news is that partial deductions are allowed, so even if you only partially qualify you are able to receive a benefit.

Creating New Cash Flow from Old Projects and Planning Ahead for New Ones

Since 179D and 45L (discussed below) covers properties constructed and put into use in past years, taxpayers may be able to create cash flow from projects long since completed. For example, with a 179D deduction, a private taxpayer could have a study for a property previously placed in service during an eligible tax year (could be any property placed in service from 2006 to 2017) and then file a change in accounting method to take the deduction in the current filing tax period and claim a tax benefit. The same holds true for a design firm, but in that case the project would need to be within the three- year statute of limitations and would have to be filed via an amended tax return instead of a method change. Design firms have the opportunity to benefit from 179D by having the deduction allocated to them on the energy efficient government buildings they designed. This is a great opportunity for a design firms!

45L Credit

Another green tax credit that could serve as a financial gain for taxpayers is the energy efficient home credit known as IRS Code 45L.

The tax code allows for the credit on any qualifying dwelling that is used as a place of residence, however, it does not have to be the owner's primary residence meaning multiple residences can be claimed by developers and contractors. Astute business owners can apply for the 45L credit for every qualifying residence within apartments, condominiums and sometimes even dormitories for colleges and universities.

To qualify, each new energy efficient residence must be built by an eligible contractor inside the statute of limitations period for their tax filings and before December 31, 2017. The tax credit typically amounts to $2,000 per residence.

A qualifying residence meets the following criteria:

- Located in the United States.

- Construction was substantially completed after a tax year inside their statute of limitations and before December 31, 2017. Construction includes renovations and rehabilitation.

- The home is a "dwelling" unit that provides complete living facilities for one or more persons within a building that is not more than three stories in height.

- Meets the energy savings requirements of Code Section 45L(c). To meet this requirement, the dwelling must generally be certified in accordance with guidance prescribed by the IRS.

Obstacles

As with any tax incentive, there is a checklist of issues that must first be addressed before claiming. These issues involve tax analysis, certification and qualified onsite inspection. This requires the management of multiple professionals, which can be a costly and time consuming process. For both 45L and 179D, tax analysis, proper certification and documentation is needed to qualify.

If you have questions on 45L and 179D, contact your tax advisor or the authors of this article.

About the Authors

Robert Bradham serves as a partner in the Charleston office. He works closely with clients to help reduce taxes and take full advantage of credits, deductions and accounting methods. Robert performs and supervises corporate, partnership and individual income tax consulting and compliance work. He also provides consulting services related to special energy tax services.

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