

Tax Credits For Energy Efficient HVAC Installations

The 2005 Energy Policy Act provides tax deductions and some credits for energy-efficient upgrades made between January 1, 2006 and December 31, 2007 in commercial buildings. A tax *deduction* of up to \$1.80 per square foot is available to owners, tenants, or designers (in the case of government-owned buildings) of new or existing commercial buildings.

Buildings are eligible to receive a tax deduction if they are designed or renovated with energy savings that exceed by 50% the requirements of ASHRAE Standard 90.1-2001. The savings must come from heating, cooling, water heating, and interior lighting. The basis for comparison is the cost of the energy saved. Partial deductions of up to \$0.60 per square foot can be taken for comparable reductions from any one of three building systems—heating and cooling, lighting, or the building envelope—that achieves the goal of 50% savings of the energy costs for the entire building.

The current plan is to base cost savings on a computer simulation. The simulation would use standard weather data, utility costs, etc.; the model would then be compared to the building trying to claim the deduction.

- New buildings with design enhancements would be compared to a similar “standard construction” building.
- Existing buildings would be compared to the same building model with added HVAC or other modifications.

The person or organization paying for the enhancements is generally the party eligible to take the tax 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 deduction may be taken by the building or system designer.

The deductions are available only for buildings or systems placed in service from January 1, 2006, through December 31, 2007. Consult your tax expert for advice about using the tax deductions for equipment installed and placed in service in a building that may not have a Certificate of Occupancy.

The Department of Energy is currently writing the technical manual that will regulate the program. The Department of Treasury will publish the regulations governing the tax code and the verification or required field inspection of the program.

FAQs

What are the incentives and how do they work?

The builder (or designer, in the case of publicly owned buildings) can take the deduction in the year the improvements were placed in service. The building or system must be certified, by 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.

What do I have to do to qualify for the incentives?

Follow the rules issued by IRS, which will be published in 2006. Interim tax guidance can be found at www.irs.gov/irb/2006-11_IRB/ar11.html.

I own an apartment building. Do the improvements I have made within the building qualify for a credit?

Specific guidelines and the final ruling on this will be determined by the IRS. Interim tax guidance can be found at www.irs.gov/irb/2006-11_IRB/ar11.html.

Are tax credits available for industrial manufacturers?

Industrial manufacturers are eligible for credits on solar, fuel cells, and microturbines.

Is there a pass-through option for federal green building incentives, and what is the process for applying for these incentives?

Designers of buildings owned by public entities, i.e., state and local governments, can qualify for the deduction for commercial buildings. The rules have yet to be written.

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