



Building Technologies Program

Tax Deductions for Commercial Buildings

Promoting Energy Savings for Businesses

Signed by President Bush on August 8, 2005, the Energy Policy Act (EPACT) lays the foundation for the new Federal tax incentives for consumers and businesses that pursue energy efficiency and the use of renewable energy.

For updated information about the tax incentives, see www.energy.gov. This website also describes other EPACT provisions of interest to businesses, including incentives for distributed generation and hybrid fuel fleet vehicles.

Tax Deductions for Commercial Building Owners

Commercial building owners and lessees who purchase and install energy-saving products in their businesses can qualify for a tax deduction under EPACT. Buildings must achieve a 50 percent reduction in annual energy costs as compared to a base building defined by the industry standard ASHRAE/IESNA 90.1-2001, including approved addenda through April 2, 2003.

The deduction may be taken against three energy-using systems:

- Heating/cooling and water heating systems
- Building envelope
- Lighting system

For systems that qualify, a deduction of up to \$1.80 per square foot off the cost of the system is available.

Each of the three energy-using systems is evaluated separately, and is eligible for one-third of the tax deduction if it meets its share of the overall savings goal for the building, a 50 percent reduction in energy costs. In other words, if one system meets the goal of reducing costs by 16 2/3 percent but the other two systems do not reduce costs at all, the building owner is entitled to a tax deduction of 60 cents per square foot off the cost of the system. Likewise, the owner is eligible for a deduction of \$1.20 per square foot off the cost if two systems qualify, reducing energy costs by 33 1/3 percent. When all three systems qualify and total energy costs are reduced

by 50 percent, the owner is eligible for the full tax deduction of \$1.80 per square foot off the cost.

Spotlight on Lighting

The Treasury Department sets out specific tax regulations for lighting efficiency. Because lighting systems are easy to upgrade and the precise energy savings gained by upgrades are already known, building owners and lessees are encouraged to focus on lighting improvements first.

Lighting systems that reduce lighting power density by 40 percent and employ dual switching – the ability to switch roughly half the lights off and still have fairly uniform light distribution – qualify owners for a full tax deduction of 60 cents per square foot off the cost of purchase. The IRS also outlines a prorated incentive schedule in which systems that reduce lighting power density by 25 to 40 percent may earn a partial deduction of 30 to 60 cents per square foot. The guidelines require that lighting level and lighting control standards be met in order for owners to qualify for the tax deductions.

Eligible Buildings

- Offices
- Retail stores
- Warehouses
- Apartment buildings (minimum four stories)
- Public buildings

Maximum Allowable Tax and Energy Savings for Energy-Efficient Building Improvements

Eligible Systems	Qualification	Tax Deduction
<ul style="list-style-type: none"> • HVAC/Water Heating • Building Envelope • Lighting 	Reduces Overall Energy Costs	Off Cost of System
One out of three	16 2/3 percent	\$0.60 per square foot
Two out of three	33 1/3 percent	\$1.20 per square foot
Three out of three	50 percent	\$1.80 per square foot

These deductions are available for owners and lessees whose buildings or systems are placed in service from January 1, 2006 through December 31, 2007.

Commercial Building Types

Eligible buildings include commercial buildings such as offices, retail buildings, and warehouses; rental housing of four stories or more; and publicly-owned buildings. In the case of public buildings, EPACT allows for the tax savings to be passed on to the person primarily responsible for designing the buildings, such as the system designer, in lieu of the public entity.

Tax Deductions Include Renovations and Upgrades

Owners of existing commercial buildings are eligible for the EPACT tax deduction if the envelope, lighting, heating and cooling, or water heating systems have been upgraded to meet the requirements outlined by the act.

Determining Eligibility

To qualify for the EPACT tax deduction, building owners must demonstrate that the energy savings meet specific criteria of consistency and accuracy based on ASHRAE Standard 140-2004 and other criteria such as California's Title 24 Alternate Compliance Method. To determine compliance, third

party inspectors must review the building plans and verify that:

- Energy use rates were calculated by DOE-certified software; and
- The energy savings technologies were installed during construction.

More Tax Saving Options for Businesses

- Business owners may qualify for tax credits for using advanced distributed generation technologies. Businesses that use microturbines, which produce power using a gas turbine engine, can receive a tax credit of 10 percent of the cost, up to \$200 per kW of power produced. The microturbine's efficiency must be at least 26 percent, with a capacity of less than 2000 kW. Businesses that use fuel cells, which generate electricity through a chemical process, can receive a tax credit of 30 percent of the cost of those fuel cells, up to \$1000 per kilowatt of power produced. Eligibility is based on the system's efficiency, which must be at least 30 percent, and its capacity, which must

be at least 0.5 kW. Tax credits for these technologies are available for systems placed in service during 2006 and 2007.

- Businesses that use heavy-duty hybrid vehicles may receive a tax credit based on the weight class of the vehicle, its fuel economy relative to a comparable conventional vehicle, and the incremental cost. The percentage of the vehicle's total power available from the rechargeable battery must meet a threshold value of "maximum available power." Tax credits are available for hybrid vehicles placed into service between 2006 and 2009.



A Strong Energy Portfolio for a Strong America

Energy efficiency and clean, renewable energy will mean a stronger economy, a cleaner environment, and greater energy independence for America. Working with a wide array of state, community, industry, and university partners, the U.S. Department of Energy's Office of Energy Efficiency and Renewable Energy invests in a diverse portfolio of energy technologies.



U.S. Department of Energy

Energy Efficiency and Renewable Energy

Bringing you a prosperous future where energy is clean, abundant, reliable, and affordable

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Additional Tax Saving Options for Business Owners

Technology	Tax Incentive	Eligibility	Time Frame
Fuel Cells	<ul style="list-style-type: none"> • 30% of cost • Up to \$1000 per kW produced 	<ul style="list-style-type: none"> • 30% efficiency • Minimum capacity of 0.5 kW 	Systems placed in service during 2006 and 2007
Microturbines	<ul style="list-style-type: none"> • 10% of cost • Up to \$200 per kW of rated power capacity 	<ul style="list-style-type: none"> • 26% efficiency • Maximum capacity of 2000 kW 	
Heavy-Duty Hybrid Vehicles	Maximum Credits: <ul style="list-style-type: none"> • \$3,000 for a vehicle weighing 8,501 to 14,000 pounds • \$6,000 for a vehicle from 14,001-26,000 pounds • \$12,000 for a vehicle over 26,000 pounds 	Dependent on: <ul style="list-style-type: none"> • Weight class of vehicle • Fuel economy • Incremental cost • "Maximum available power" from rechargeable energy storage system 	