

DON'T LEAVE 179D ON THE TABLE

WORK WITH YOUR ESCO TO FIND VALUE IN ENERGY EFFICIENCY TAX INCENTIVES

BY JOSH HOWES

There's been a lot of excitement in the public arena around the Section 179D tax deduction since it was expanded in the Inflation Reduction Act (IRA), and rightfully so. For public universities 179D provides an opportunity to provide some additional funds for your retrofit project and build a better relationship with your energy service company (ESCO).

Interior lighting systems, HVAC, hot water systems, and the building envelope (walls, roofs, windows, doors, etc.) all qualify for the 179D tax deduction, and they are very common in retrofit projects. Due to the low baseline standards, most projects that include these energy efficiency measures will qualify for some amount of 179D money. The baseline for 179D is ASHRAE 90.1-2007 through the 2026 tax year, which makes the deduction a relatively sure bet.

For public energy efficiency improvement projects, the public building owner must allocate the 179D tax deduction to a designer of one of the energy efficiency measures in the project. The designer is often an ESCO on these types of projects. The questions the public building owner must ask the ESCO are 1) will you take the 179D deduction and 2) will you share it?

In some cases, the ESCO may not require the 179D deduction to support their project, and if they do pursue it, they may have specific plans for its allocation. A conversation needs to happen, preferably prior to construction, between the owner and ESCO about how the 179D deduction will be handled. This is where the opportunity to build a mutually beneficial relationship between the building owner and ESCO presents itself.

If the project qualifies, the ESCO would reduce its corporate profit by the deduction amount. The tax savings realized would be found by multiplying the tax deduction amount by the company tax rate, which is typically around 20%. While 179D isn't going to be enough to fund the project, it is an opportunity that should be evaluated. You could be leaving savings on the table.

It's necessary for both parties to work together to find value in the 179D deduction. The building owner must sign over the tax deduction to the ESCO in order for them to claim the 179D tax deduction. The ESCO must deliver an energy-efficient project that qualifies for 179D and results in an acceptable return on investment.

The 179D tax deduction should be discussed at the beginning of the project. Considering the value of 179D is relatively small compared to the cost of the project, aligning on the opportunity early sets a good tone for the project and can be used to build a better relationship between the owner and ESCO with the potential to contribute additional savings to the project. ✿

179D HISTORY

The §179D Energy-Efficient Commercial Buildings Deduction was established under the Energy Policy Act of 2005 to encourage energy efficiency in commercial buildings. Initially intended as a temporary incentive, it provided a tax deduction of up to \$1.80 per square foot for installing energy-efficient systems in lighting, HVAC, and building envelopes. In 2020, the deduction was made permanent through the Consolidated Appropriations Act. The Inflation Reduction Act of 2022 expanded the benefit further, increasing deduction amounts.



JOSH HOWES, CEO, BLUE ENERGY GROUP

Josh is a Professional Engineer licensed in all 50 states and has been an advocate and leader in all things related to the 179D tax code since 2011. In 2013, he founded Blue Energy Group, an engineering firm that specializes in commercial building energy tax incentives, partnering with building owners, energy service companies, accounting firms, design-build firms, and renewable energy developers to maximize energy tax benefits.

Contact Josh Howes to learn more at josh@bluenergy.com

