



Energy-Efficient Building Deduction

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, 2017.
- 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 percent in comparison to a reference building which meets the minimum requirements of ASHRAE Standard 90.1-2001. (Standard 90.1-2007 for buildings placed in service in 2016)
- 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 percent in comparison to the 2001 standard.
- If reduction of LPD is between 25 percent and 40 percent, the deduction is prorated.

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McGuire Sponsel doesn't just research possible energy-efficient building deductions, but goes one step further to find ways to maximize deductions that will withstand IRS scrutiny.

– David McGuire
Director
McGuire Sponsel

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