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Tax Advantages of Building Green

As our society has pushed to become more eco-friendly federal, state and local governments have instituted strong tax credits for green buildings. Following is an explanation of some of the incentives that can save you on taxes while you're saving the environment.

Federal – Energy Efficient Commercial Buildings Tax Deduction

- Established by the Energy Policy Act of 2005
 - » Provides a incentive applied in the form of a DEDUCTION (Sec. 179D) on the taxpayer's Federal Income Tax return
 - » Applies to commercial buildings placed in service from January 1, 2006 through December 31, 2013 (recently extended by H.R. 1424)
 - » IRS Notice 2006-52 and 2008-40
- Qualifications
 - » New or Existing Buildings
 - » Includes but is not limited to: (1) interior lighting; (2) building envelope, or (3) heating, cooling, ventilation, or hot water systems that reduce the building's total energy and power cost by 50% or more in comparison to a building meeting minimum requirements set by ASHRAE Standard 90.1-2001.
 - » Energy savings must be calculated using qualified computer software approved by the IRS.
 - » Qualified Engineer Certification – taxpayer must obtain a certification with respect to the property from a qualified individual.
 - Qualified individual is one who is not related (not an employee) to the taxpayer claiming the deduction; and is an engineer or contractor licensed in the jurisdiction in which the building is located.
 - » Available primarily to building owners, although tenants may be eligible if they make construction expenditures

- » In the case of energy efficient systems installed on or in government property, tax deductions will be given to the person primarily responsible for the systems' design (“designer”)
- The Deduction
 - » \$0.30-\$1.80 per square foot, depending on technology and amount of energy reduction
 - » Maximum deductions of \$0.60 per square foot are available to owners of buildings in which individual lighting, building envelope, or heating and cooling systems meet target levels that would reasonably contribute to an overall building savings of 50% if additional systems were installed
 - » Deductions are taken in the year when construction is completed
 - » There is no special form to claim the deduction
 - » Taxpayers should include the amount of the deduction in the amount in the “Other deductions” line of the tax return
 - » A statement listing the types and amounts of “other deductions” should be attached to the return. In addition, it is important that a taxpayer obtain and retain the necessary certifications and documentation to claim the deduction (see, IRS Notice 2006-52 for these requirements).

State & Local Green Building Tax Credits/Incentives

- Corporate Income Tax Credits – GA, IN, KY, MD, MA, MT, NM, NY, OR
- Sales Tax Exemptions – CT, KY
- Property Tax Exemptions – MD, NV, VA

If you have any specific questions about the tax incentives available for building green contact Pat McCown, State and Local Tax partner at (214) 461-1416 or by email at pmccown@lgt-cpa.com.

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