

New Energy Tax Deductions for 2016

By Eric A. Woodroof, Ph.D., CEM, CRM
Buildings Magazine February 2016

About five years ago, I wrote about project developer who specializes in energy tax deductions and rebates. We call him “Dr. EPAct” because he knows how to navigate and attain substantial tax deductions and rebates, which pay for most (if not all) of a project’s cost. His highly tangible skills in accounting are typically “outside” of an energy manager’s core strengths, but definitely worth knowing. This month, Dr. EPAct (Bill Bissmeyer) is contributing again in this article! He will help explain the Federal Tax Extenders Act, which was signed on December 18, 2015 into law. More importantly, Bill presents a case study showing the economics and tax advantages that you have available to you. *Frankly- you cannot afford to skip this article because it may be the key you need to get your project funded.*

Also- There is a short video which explains the benefits:

<http://www.profitablegreensolutions.com/resources/2016-special-tax-benefits>

Background:

President George W. Bush signed the original EPAct legislation in 2005, and fortunately, this energy bill was extended on December 18, 2015 to last through the years 2015 and 2016. *Unless you were already aware that this is going to be extended in 2015, you probably weren't doing anything during 2015 to take advantage of the tax situation. **However this recent extension gets you one full year to get some activity done and claim substantial tax benefits for the 2016 tax year!*** Read the case study below to see how this approach could be applied for your building.

Case Study:

Consider an Illinois manufacturer in a 100,000 square foot building with 250 traditional metal halide light fixtures and a hot water boiler heating system. *If doing energy efficiency retrofits during 2015 or 2016, the EPAct extension could allow for a \$1.80 tax deduction per square foot.* By replacing the Metal Halide lights with 250 higher efficiency T-5 fluorescent (or LED) light fixtures and by replacing the boiler with a natural gas high efficiency air turnover unit, the building owner could qualify for a Federal tax deduction of \$180,000. This



converts to a \$63,000 tax credit by applying the standard corporate tax rate of 35%. ($\$180,000 \times 35\% = \$63,000$ in “cash” equivalent.)

In most cases, the same building owner would qualify for both electric and natural gas utility rebates in the amount of \$18,000.00. The rebates might even be higher in some utilities. If the same customer applies for a WCB310 deduction, they would qualify to receive a \$49,500.00 Federal Tax deduction.

Lets look at the economics of this project:

Cost to replace 250 lights.....\$68,750.



Cost to replace a boiler with an air turnover system....\$52,000.



Total Upfront Installation Costs to the building owner.....\$120,750.

Less EPAAct federal tax credit (Deduction at 35% rate) -63,000.

Less the projected utility rebates.....-18,000.



Less the WCB310 federal tax deduction.....-49,500.

Total Net Project Cost after tax deductions and rebates -(\$9,750.00)

What makes this case study even more dramatic is that once you figure in the annual electric and gas savings over the first year of operation, the building owner can literally save an additional \$27,000/year, which gives the building owner a positive cash flow on a major building improvement and dramatic energy savings into the future.

Details and Qualification Steps:

If the building owner is considering an energy project via replacing lighting or HVAC systems, we suggest that he or she take the following steps to insure that their project follows the rules and regulations:

- A. Contact a professional engineering/accounting firm that can review and “pre-qualify” the project to meet or exceed both the Federal and local regulations.
- B. Obtain a pre-qualification letter that is to be submitted with all applications for Federal, state, and utility refunds or rebates.
- C. Once the project is completed and is operational, obtain a “Closure Certification Report” from the professional engineering/accounting firm that creates the forms and modeling that is required to claim the tax deductions.

A few frequently asked questions are:

- 1. What does the “Certification Report” normally cost? There are many professionally licensed firms that offer the complete pre-certification review and letter and the full “Certification Report” for \$0.05 per square foot of the building (The 100,000 square foot building certification would cost \$2,500 which is also deductible.)
- 2. Can this program be used on “new construction”? EPAAct is extraordinarily “wide-scoped” and can be applied to both existing as well as new commercial, distribution, or manufacturing facilities. Apartment and residential buildings are not covered under these programs.
- 3. Why hasn’t our existing accounting firm mentioned this bill to us? Even though this is a great program, it has not been used widely because it has not been advertised by any government agencies. For more



information, visit www.epactcertification.org or www.epact2014.com or call names offered at the end of this article.

4. Who do I contact if I want more information? We will suggest that you call any one of the following:

IRS – Washington, DC – 202-622-5000

B&B Energy – Indianapolis, Indiana – 800-357-6845

EPAAct Certification Services – Dayton, Ohio – 855-883-7228

Summary:

If you are building or retrofitting a commercial structure, it pays long-term to make the building energy efficient. In most cases, there is funding available that will pay between 40% and 100% of the cost of the hybrid lighting and HVAC systems.

You can reach “Dr. EPAAct”, (Bill Bissmeyer) with questions on EPAAct, and he is happy to offer recommendations at no charge to fellow energy practitioners across the country. (800-357-6845)

