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Take Advantage of the 179D Energy-Efficient Commercial Building Tax Deduction

Great news for commercial building owners: the Section 179D Energy Policy Act tax deduction was made permanent as part of the Consolidated Appropriations Act of 2021. This change enables business owners and government contractors, including healthcare property owners to take advantage of a perpetual tax incentive for energy-saving improvements.

Originally passed by Congress in 2005 as part of the Energy Policy Act, the Section 179D deduction has been subject to renewal every few years. As part of the government's effort to encourage greater energy efficiency, Section 179D allows qualifying building owners and businesses to receive a deduction of up to \$1.80 per square foot for their energy-efficient improvements made during qualifying tax years.

Section 179D covers improvements to an HVAC system, hot water system, interior lighting system or the building's envelope. Building owners and lessees qualify for this tax deduction on improvements they make to office buildings, office spaces and certain other properties.

Under a special rule for public property, designers, engineers, builders, contractors, architects, environmental consultants and energy service providers also may qualify for this tax deduction if they have improved the energy efficiency of a new government building or enhanced an existing government structure. Government-owned buildings include schools as well as county and municipal buildings and offices. Because government entities are not taxed, the building owner can allocate this tax savings to the provider or firm responsible for making these improvements.

The Section 179D deduction can result in substantial tax savings, depending on the energy efficiency levels met by the project. To qualify, energy-saving improvements must surpass ASHRAE 2001 standards for buildings placed into service before 2016 and ASHRAE 2007 standards thereafter. Property owners and business owners benefit not only from the tax deduction, but also from the ongoing savings achieved through energy-efficient improvements.

If you have any questions about the Section 179D tax deduction, please contact Frankel Zacharia at 402.496.9100.