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Tax Savings for Energy-Efficient Commercial Buildings in the Inflation Reduction Act

The [Inflation Reduction Act \(IRA\) of 2022](#) became law when President Biden signed it on August 16, 2022. In addition to provisions specifically aimed at curbing the highest rates of inflation seen in recent decades, the bill provides massive amounts of incentives for clean energy, zero-emissions vehicles, energy-efficient buildings and other “green” technologies. One such provision amends the energy-efficient commercial buildings deduction (EECBD) found in [§ 179D of the Internal Revenue Code \(IRC\)](#). In taxable years beginning after the end of 2022, more commercial building owners will be able to take advantage of the deduction in greater amounts and more often. Read on to learn more about how the IRA expands the EECBD and how you and your business might benefit.

What is the Energy-Efficient Commercial Buildings Deduction?

Congress first established the EECBD in the [Energy Policy Act of 2005](#). It first took effect on January 1, 2006. The [Consolidated Appropriations Act of 2021](#) made it a permanent part of the IRC. It provides an incentive for the use of cost-saving measures in commercial buildings by providing tax deductions to building owners and others.

What Did § 179D State Before the IRA Became Law?

Prior to the IRA becoming law, § 179D allowed commercial building owners to claim a deduction of \$1.80 per square foot for buildings with certified energy-efficient building envelopes, lighting systems or HVAC and hot water systems. To qualify for the full deduction, the system had to reduce the energy costs by at least 50% when compared to a building that met the “minimum requirements of [Reference Standard 90.1](#)” of the American Society of Heating, Refrigerating and Air-Conditioning Engineers (ASHRAE). Properties could get a partial deduction of \$0.60 per square foot if individual systems brought in certain amounts of savings on energy costs.

The deduction was not available to private nonprofit organizations at all. For government-owned properties, however, the deduction would go to “the person primarily responsible for designing the property,” such as an architect or engineer. The IRS stated in [Notice 2008-40](#) that the designer is the “person that creates the technical specifications for installation of energy efficient commercial building property.” Allowing the designer to benefit from the deduction creates an incentive for professionals to focus more of their work on energy-efficient design and building techniques.

What Changes Does the IRA Make?

Section 13303 of the IRA amends § 179D to increase the size of the EECBD, expand its availability and make certain other changes. Instead of a set amount based on the square footage, the deduction is now based on the actual cost savings created by the energy-efficient systems, and could be as high as \$5.00 per square foot. Previously, the deduction was only available once, but now a building owner may claim a deduction every three years.

The bill modifies the efficiency standard required for the deduction. Instead of saving 50% in energy costs over a building that meets the minimum ASHRAE standard, a building system must now only save 25%. It eliminates partial deductions altogether.

The IRA also modifies the provision of § 179D that allocates the EECBD for public buildings to the designer, expanding the availability of the deduction for buildings owned by tax-exempt entities. It changes the title of that subsection from “Allocation of deduction for public property” to “Allocation of deduction by certain tax-exempt entities.” The allocation of the deduction may go to the designer of buildings owned by the government, including the federal government and state and tribal governments, as well as tax-exempt nonprofit organizations.

A deduction will also be available for “qualified retrofit plans” that will reduce a commercial building’s “energy use intensity” by at least 25%. In order to qualify for this deduction, a building must have been at least five years old at the time of the retrofit.

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