



How the Inflation Reduction Act Encourages Energy-Efficient Construction with Tax Deductions and Credits

The construction and real estate industries can find many benefits in the [Inflation Reduction Act \(IRA\) of 2022](#), which became law in August. The law makes a wide range of changes to the Internal Revenue Code (IRC) to expand the availability of tax credits and tax deductions for energy-efficient construction. Starting in 2023, commercial building owners will be able to claim a deduction for construction that improves energy efficiency by 25% or more. Residential homebuilders and developers will be able to claim a larger tax credit for energy-efficient homes and apartment buildings. Read on to learn more about these changes to tax law and how they might affect you.

Section 179D Energy-Efficient Commercial Buildings Deduction

[Section 179D of the IRC](#) provides a tax deduction to commercial building owners based on the square footage of the property. The property must have a certification indicating that it has reduced its energy and power costs by a certain percentage when compared to a reference building. The standard for the reference building is based on [Standard 90.1](#) from the American Society of Heating, Refrigerating and Air-Conditioning Engineers (ASHRAE).

Standard 90.1 applies to all commercial buildings in the U.S., including new construction, additions and retrofits. It addresses energy use in numerous aspects of construction, including lighting, mechanical systems and the building envelope. As of December 2022, the most recent revisions to the standard by ASHRAE are from 2019.

The § 179D Deduction Before the IRA

For buildings placed into service on or before December 31, 2022, the amount of the § 179D deduction is \$1.80 per square foot, subject to cost-of-living adjustments. The building must have a reduction in energy costs of at least 50% based on the ASHRAE standard certified within two years prior to the date construction began.

The § 179D Deduction After the IRA

Buildings placed into service on or after January 1, 2023 can take advantage of the expanded tax deduction. They must show a 25% reduction in energy costs based on the ASHRAE standard certified within four years of the date the building was placed into service. The amount of the deduction is up to \$1 or \$5 per square foot. The IRA creates incentives for increased energy efficiency and payment of prevailing wages.

The base amount of the deduction is \$0.50 per square foot. That amount goes up by \$0.02 for each percentage point improvement in energy efficiency over 25%, up to a maximum of \$1.00. The owner of a building with a 25% improvement would be entitled to a deduction of \$.50 per square foot, while someone with a 30% improvement could claim \$0.60.

If a commercial property owner meets apprenticeship and prevailing wage requirements set by the U.S. Department of Labor, the amount of the deduction increases by a big margin. The base amount is \$2.50 per square foot, increasing by \$0.10 for each percentage point improvement over 25%, to a maximum of \$5.00.

Section 45L New Energy-Efficient Home Credit

The [§ 45L tax credit](#) is available to builders and developers rather than the eventual owners of energy-efficient homes. The builder or developer cannot claim the credit for a particular property, however, until someone purchases the property for use as a residence. Homes and apartment buildings must meet energy efficiency standards set by the Department of Energy (DOE). Two standards may apply: The [Energy Star standard](#) or the [Zero Energy Ready Home \(ZERH\) standard](#)

The § 45L Credit Before the IRA

For homes built and purchased on or before December 31, 2022, the builder or developer may claim a tax credit of \$2,000.

The § 45L Credit After the IRA

Starting in 2023, the amount of the tax credit will be greater, depending on the type of property and the energy efficiency standard that it meets. Different credits are available for single-family homes, manufactured homes and multifamily units:

- Single-family home: \$5,000 for Energy Star, or \$2,500 for ZERH
- Manufactured home: \$2,500 for either standard
- Multifamily units: \$500 to \$2,500 per unit for Energy Star, or \$1,000 to \$5,000 per unit for ZERH.

Contact [Frankel Zacharia](#) today to learn more about how we can support your business. Call us at 402.496.9100 or email www.fzacpa.com.