



# Turn Energy Efficiency Into Significant Tax Savings

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179D Epact Tax Deduction



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# What Is The **179D Epact** Tax Deduction?



**The Energy Policy Act of 2005 (EPAct)** created the Energy-Efficient Commercial Building Tax Deduction, also known as the 179D deduction. This tax incentive encourages developers to construct commercial buildings that are energy efficient. Additionally, an update in the **Inflation Reduction Act** incentivizes taxpayers to pay fair wages and hire apprentices for commercial construction projects.



Engineered Tax Services (ETS) has provided thousands of Energy Policy Act tax certifications since 2005. Managing over 100 certifications every month, we have perfected the process by working closely with the IRS. Our precise documentation meets and exceeds the standards required by the Department of Energy and the IRS, and it has consistently withstood the toughest scrutiny.



### **Inflation Reduction Act Update**

Signed into law on August 16, 2022, the Inflation Reduction Act (IRA) extended and updated 179D. One of its major changes has been the introduction of a “bonus rate” for projects meeting labor standards. Additionally, energy-savings requirements were altered to make them more achievable against the updated ASHRAE standards. Retrofit rules have also been updated to reflect the unique circumstances of renovation projects.

## What Are The Requirements?

New construction or retrofits must achieve energy savings between 25%-50%. For the bonus deduction, laborers must be paid prevailing wage minimums, and qualified apprentices must perform a required number of hours. (12.5% in 2023, and 15% in 2024)

### Pre-2023

Prior to the 2023 tax year, qualifying buildings must show a reduced energy cost savings compared to ASHRAE 90.1-2007. The 179D deduction may only be claimed once per qualifying building.



### 2023 and Later

Beginning in the 2023 tax year, qualifying buildings must show a minimum 25% reduced energy cost savings compared to either **(1)** ASHRAE90.1-2007 or **(2)** the standard affirmed four years prior to the completion of construction. The IRA also introduced prevailing wage and apprenticeship provisions. If contractors meet these optional requirements, they may be eligible for a **5x multiplier on their 179D deduction amounts**.

Because the IRA updated retrofit requirements, it is now possible to claim 179D more than once for a single building. However, the building must be at least three years old and meet all retrofit requirements to qualify.



## What Types Of Buildings Qualify?

### Pre-2023

- Commercial buildings (any size)
- Residential buildings (4 stories or more)
- Governmental buildings

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### 2023 and Later

- Commercial buildings (any size)
- Residential buildings (4 stories or more)
- Governmental buildings
- Buildings owned by not-for-profit organizations
- Houses of worship
- Buildings owned by Tribal organizations
- Not-for-profit schools and universities



## How Much Is the **179 Energy Policy Act** **Deduction Worth?**

The value of 179D is calculated based on the square footage of the commercial property. Prior to 2023, the square footage of individual systems could also be used to calculate 179D deductions. Beginning in 2023, 179D deductions will be available on a sliding-scale basis.

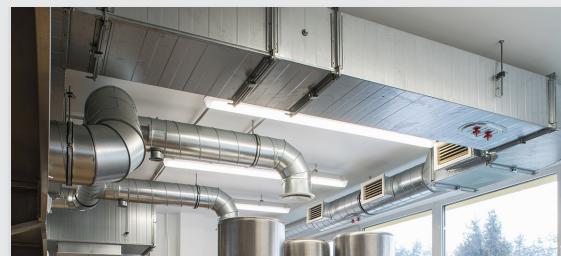


### Pre-2023

The value of 179D deductions claimed prior to 2023 is calculated at \$1.80 per square foot for the entire building, plus an inflation adjustment. Alternatively, the value may be calculated at \$0.60 per square foot for qualifying subsystems, plus an inflation adjustment.

#### Qualifying subsystems include:

- Interior lighting
- HVAC and hot water systems
- The building envelope



### What Are Partial Deductions?

If a building is unable to meet 50% energy savings as a whole, then each subsystem (HVAC, lighting and envelope) can be analyzed individually in an attempt to meet a \$0.60 per square foot deduction. Lighting is the only component that can qualify on a sliding scale for the deduction as per the interim rules. Depending on the reduction of Lighting Power Density (LPDs), the owner/designer can qualify for a deduction of \$0.30–\$0.60 per square foot. Lighting is dependent on square footage, building type, bi-level switching and energy consumption. There are also multiple ways for a property to qualify based on the code revisions. Please contact us to receive a complimentary energy review of your project.



### 2023 and Later

Provisions in The Inflation Reduction Act of 2022 make calculating the value of 179D more complicated, but they also enable taxpayers to achieve significantly higher deductions.

**The amount of the deduction is determined by**

**(1)** the percentage of energy efficiency gained over baseline and

**(2)** the optional adherence to prevailing wage and apprenticeship requirements. 25% is the minimum savings needed to achieve the deduction, and 50% is the maximum.

This is represented in the table below.

PIS Year	Efficiency Gain Over Baseline	Deduction Amount "Base Rate"	Labor Standards "Bonus Rate"
2023	25%	\$0.54 per sq ft	\$2.68 per sq ft
	50%	\$1.07 per sq ft	\$5.36 per sq ft
2024	25%	\$0.57 per sq ft	\$2.83 per sq ft
	50%	\$1.13 per sq ft	\$5.65 per sq ft

## Who Can Claim The 179D Deduction?

### Pre-2023

- Commercial building owners
- Owners of 4+ story residential buildings
- Designers of buildings owned by government entities

### 2023 and Later

- Commercial building owners
- Owners of 4+ story residential buildings
- Designers of buildings owned by:
  - Government entities
  - Not-for-profit organizations
  - Churches and other religious organizations
  - Tribal organizations
  - Not-for-profit schools and universities



## How to Get Started

Whether you're a building owner, designer or contractor who has implemented energy-efficient components in your commercial property, you could be eligible for substantial tax deductions under the 179D Energy Policy Act. At Engineered Tax Services, we're here to help you capitalize on these savings.

Begin your journey by consulting with one of our specialty tax experts. Discover the potential savings you could unlock with a **complimentary 179D analysis** today!





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