



CHANGE FOR THE BETTER WITH ENERGY STAR

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ARE YOU READY TO TAKE ADVANTAGE OF THE NEW COMMERCIAL TAX INCENTIVES?

INTRODUCTION

You may be eligible for a tax deduction of up to \$1.80 per square foot for improving the energy efficiency of your existing commercial buildings or designing high efficiency into new buildings.

The Energy Policy Act of 2005 includes a tax deduction for investments in “energy-efficient commercial building property” designed to significantly reduce the heating, cooling, water heating, and interior lighting energy cost of new or existing commercial buildings. To be eligible, the energy-efficient commercial building property—such as a state-of-the-art lighting system—must be placed in service between January 1, 2006 and December 31, 2007.

To qualify for the full deduction, a building owner or tenant must make investments designed to reduce energy costs by 50% or more. A partial deduction of \$0.60 per square foot is available for investments in one of three systems—lighting; heating and cooling; or building envelope—designed to reduce energy costs by 16 and 2/3% (i.e., one-third of the 50% requirement).

Tax deductions reduce your overall taxable income with the value of the deduction dependent on your tax bracket. Tax credits, such as the ones provided for consumers in the 2005 Energy Policy Act, reduce the amount of tax you owe dollar for dollar.

Who Can Benefit from the Deduction?

The person or organization that pays for construction is generally the recipient of the deduction. This is usually the building owner, but for some HVAC or lighting efficiency projects, it could be the tenant.

For government-owned buildings, the person primarily responsible for designing the building or project may be able to claim the deduction.

How Can I Learn About the Final Rules?

Check the following websites regularly for updates:

- www.energystar.gov/taxcredits
The ENERGY STAR website will include updates as more information becomes available, as well as cost-effective solutions for improving the energy efficiency of your buildings.
- www.efficientbuildings.org
Sponsored by the Commercial Building Tax Deduction Coalition, including business, trade, government, energy efficiency, and other groups convened by the National Electrical Manufacturers Association.
- www.energytaxincentives.org
Sponsored by the Tax Incentives Assistance Project (TIAP), a coalition of public interest non-profit, government, and other organizations in the energy efficiency field.

STEPS TO TAKE

What can you do today to be ready?

1. Establish the energy use of your building(s) and set a savings goal—Take the ENERGY STAR Building Challenge

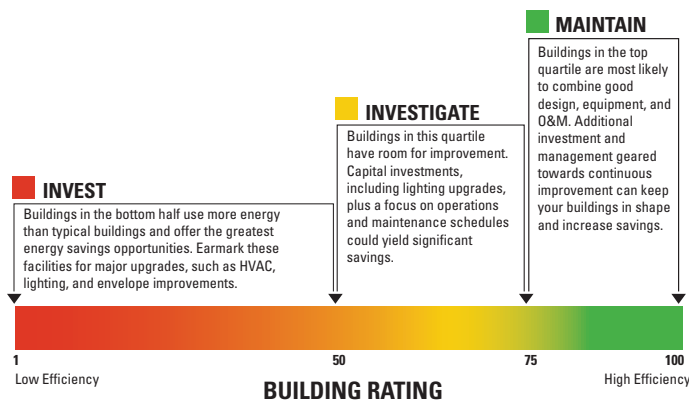
It is hard to manage what we do not measure. With new easy to use energy use tracking tools, you can establish the current energy use of your building(s) and determine a reasonable energy savings goal. This is the first step in many effective energy savings programs, and will help you identify the best opportunities to qualify for the tax deduction.

Here's how:

- Assess the current energy use of your building(s) to establish a reference using EPA's national energy performance rating system (www.energystar.gov/benchmark), a free online tool that provides many types of buildings with a score on a simple 1-to-100 scale, 1 being the least efficient and 100 being the most.

- Set appropriate goals for your business. EPA encourages the establishment of a simple 10 percent savings goal to start and your participation in the national ENERGY STAR Building Challenge (www.energystar.gov/challenge). Many organizations are finding this to be an effective savings strategy. For individual buildings, you may find the opportunity for much greater savings. The approximately 2,600 buildings across the country that have earned the ENERGY STAR use about 40% less energy than typical buildings—your lower-performing buildings may offer savings of 50% or more.

The table below is a general guide to interpreting the ratings for your building(s).



2. Design New Buildings to Achieve Top Energy Efficiency

To qualify for the tax incentive by demonstrating that the code-regulated systems in a new building are designed to save 50% of the energy cost, the design team must set a clear goal, supported by good technology and carefully integrated systems. EPA can help you set energy efficiency targets for your new buildings at the design stage, showing you how your building would rate if operating today. Designing for top efficiency can now bring a tax benefit as well as EPA’s “Designed to Earn the ENERGY STAR” recognition and years of energy bill savings.

Here’s how:

- Estimate the building’s total energy budget, and use EPA’s Target Finder (www.energystar.gov/newbuildingdesign) to compare it with existing buildings of a similar type. Make sure the projected energy budget includes **all** energy uses, not just those systems covered by the energy code.

- Apply for the “Designed to Earn the ENERGY STAR” recognition for building designs with estimated energy performance among the nation’s best.

3. Improve Lighting Systems

Improving your lighting systems is one of the first steps EPA recommends to increase the efficiency of your buildings—whether you are retrofitting existing buildings or designing new buildings. This is not only because lighting upgrades are so cost-effective, but also because less heat is generated from efficient lighting systems, affecting the proper sizing of more capital-intensive heating and cooling systems. As outlined in the ENERGY STAR Building Upgrade Manual (www.energystar.gov/BldgManual), a strategy that combines efficient lighting technologies, controls, and appropriate light levels is the most effective approach to meeting energy efficiency goals, including those required to qualify for the partial tax deduction.

You may qualify for a deduction of \$0.30 per square foot if the lighting system employs dual switching (ability to switch roughly half the lights off and still have fairly uniform light distribution) and reduces installed lighting power by at least 25% from values specified in specific cited tables in ASHRAE Standard 90.1-2001. As lighting power reductions climb from 25% to 40%, the deduction is increased proportionally, up to \$0.60 for a 40% power reduction (plus the dual switching). This prorated credit does not apply to warehouse lighting. For a typical building, a lighting power reduction of 40% increases the building’s ENERGY STAR rating by about 10 points.

CONSULT A TAX PROFESSIONAL

The steps outlined above should help you improve the efficiency of your buildings and prepare for the new tax incentives. But only a tax attorney or other professional can provide tax advice.