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Energy Efficient Commercial Building Tax Deduction: IRS Section 179D Reform

QCA Position:

Buildings consume 74% of the electricity in the United States, half of which is consumed by the commercial building sector. That's more than \$170 billion in energy bills per year for the commercial sector alone. Cutting the energy use in America's commercial buildings – of which 75% of the total square footage is at least 20 years old and incorporates inefficient technologies (lighting, heating and cooling, and insulation) – will put money into the pockets of business owners, spur job growth in both construction and manufacturing sectors, and lower energy demand and expense for all Americans.

Issue:

Established by EPACT 2005, the **Energy Efficient Commercial Building Tax Deduction (Section 179D)** was intended to create a stretch incentive for building owners to significantly improve the energy efficiency of their buildings. While portions of Section 179D have been effective and the deduction should remain in place, it has largely failed to deliver on the promise of whole building retrofits. To allow this tax incentive to drive more energy efficiency, create more jobs, and improve our nation's commercial buildings, large and small, we recommend an additional tax incentive provision that is specifically targeted toward encouraging existing building upgrades.

The Energy Efficient Commercial Building Tax Deduction Reform should include:

- **Measure energy savings based on the building's energy use before and after the upgrade.** A performance-based incentive rewards real improvements in building energy use and allows owners the flexibility of achieving those savings however they see fit.
- **Match the incentive earned to the energy savings achieved.** Building owners should earn an appropriate deduction for the energy savings they create. We recommend incentives beginning when a 20% improvement over the building's prior performance is achieved, with a maximum incentive available if buildings achieve a 50% or greater improvement.
- **Provide a portion of the incentive for implementing efficiency improvements and a portion for demonstrated savings.** We recommend splitting the deduction so that a portion is available up front to incent building owners to implement the energy efficiency upgrades and the remainder to incent optimal management and maintenance over time.
- **Make the tax incentive useable for a broad range of building efficiency stakeholders.** The incentive should be fully assignable to the designer, architect, primary contractor, contractor installing the individual prescriptive improvement, tenants or to owners of EE commercial building property who are not owners or lessees of entire buildings. An assignable deduction is significantly more flexible and usable for building owners, and enables the incentive to drive retrofits of buildings owned by the federal or state government, non-profit organizations, Real Estate Investment Trusts, or other entity not subject to U.S. income tax.

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