



New Legislation for 2023 Triples & Expands Tax Deductions for Sustainable Architecture

Jesse Stanley

Director – Green Building Tax Incentive Services

Presented on August 1, 2023



ABOUT KBKG

Established in 1999 with offices in major markets throughout the US, KBKG is one of the oldest and largest independent providers of specialty tax studies in the country. By focusing exclusively on value-added tax services, we complement your traditional tax and accounting team.

SINGLE SOURCE SOLUTION

We are unique in the marketplace as we offer a single source solution for a number of specialty tax services. We provide you with a single point of contact who will interject the appropriate subject matter expert within our team as necessary. We help determine which tax programs benefit clients and stay committed to handling each relationship with care and diligence.

SEAMLESS TEAMWORK & COLLABORATION

Our ability to work seamlessly with your team is the reason so many tax professionals and businesses across the nation trust KBKG.

Our practice is staffed by full-time specialists with engineering, valuation, "green" building, estimating, and construction backgrounds as well as tax professionals, attorneys, engineers, and economists.

SERVICES

- R&D Tax Credits
- Employee Retention Tax Credits
- Cost Segregation for Buildings and Improvements
- Green Building Tax Incentives
- Transfer Pricing Services
- IC-DISC
- Fixed Asset Review
- Repair vs. Capitalization Review
- Employment Tax Credits



Jesse Stanley

Director – 179D and Practice Leader

- Director at KBKG in the 179D practice.
- Jesse has over 15 years of experience in the Energy, Sustainability, and Tax Consulting industries. Jesse is a licensed Mechanical Engineer in 38 States. He is a subject matter expert on energy efficiency in buildings, sustainability, mechanical system design, building controls, and daylighting design having presented to ASHRAE Conferences, Former Congressmen, federal agencies, and state government officials.
- He has spent nearly a decade helping Architects, Engineers, and Design Build Contractors, claim the 179D Energy Efficient Commercial Building Tax Deductions for their new and existing building projects across over 2 billion square feet of commercial building space.



SOLUTIONS FOR TAX PROFESSIONALS AND BUSINESSES
TAX CREDITS • INCENTIVES • COST RECOVERY



Agenda for today

179D Explained	<i>10min</i>
Inflation Reduction Act Changes	<i>10min</i>
Retrofit Program	<i>5min</i>
Qualification Requirements	<i>10min</i>
Calculation Methods	<i>5min</i>
Q & A	<i>15min</i>



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10min

Calculation Methods

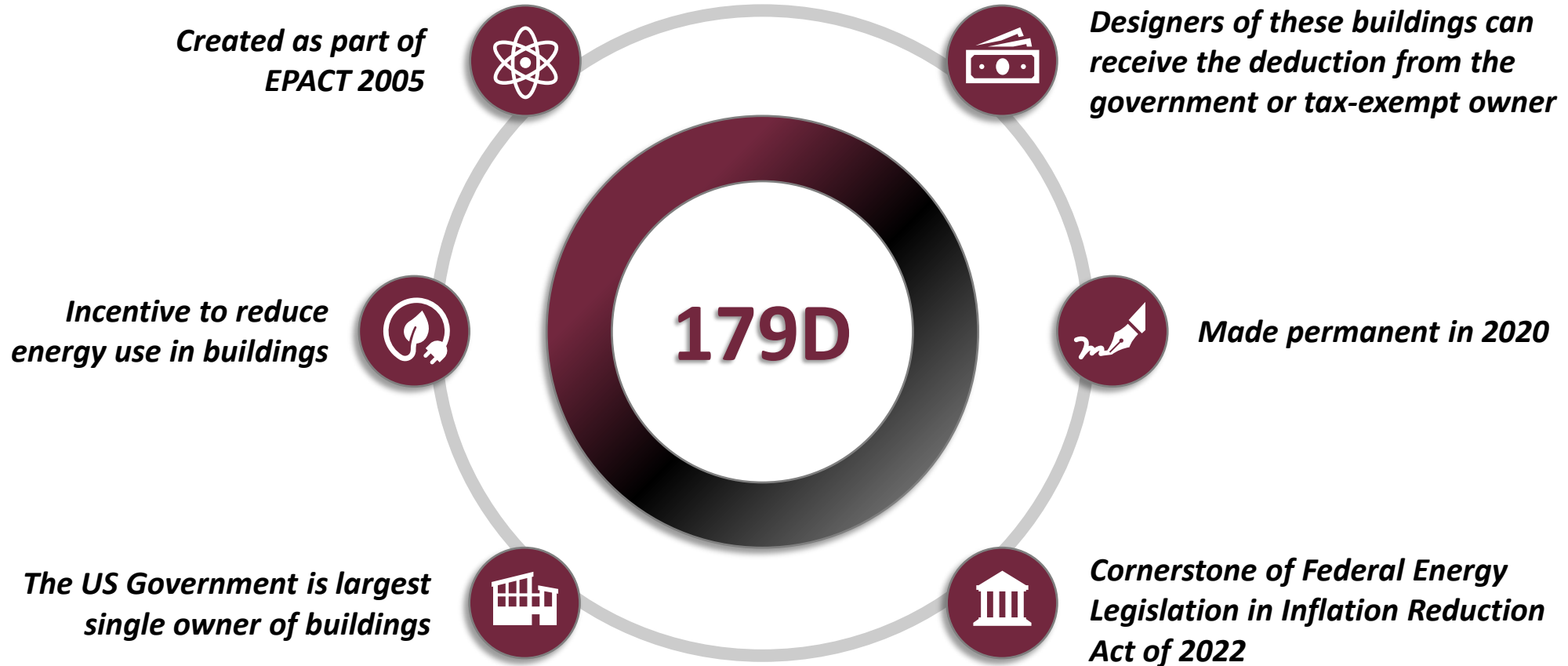
5min

Q & A

15min



Overview of 179D





Summary of 179D Tax Deductions

Compliance Path		Savings Requirement	Tax Deduction			
			taxable years before 2021	taxable year beginning 2021	taxable year beginning 2022	taxable year beginning 2023*
Fully Qualifying Property		25%	na	na	na	
		50%	\$1.80/ft ²	\$1.82/ft ²	\$1.88/ft ²	
Partially Qualifying Property	Envelope	10%	\$0.60/ft ²	\$0.61/ft ²	\$0.63/ft ²	
	HVAC and HW	15%				
	Lighting	25%				
Interim Lighting Rule		25% - 40% lower lighting power density (50% for warehouses)	\$0.60/ft ²	\$0.61/ft ²	\$0.63/ft ²	



What does 179D look like in 2022 (as well as previous years)?

2022 and prior

Available to:

- Designers of government entities
- Commercial building owners

Prevailing Wages

Requirements:

NONE!

Benefits

Qualifications:

- Was made permanent in 2020
- The maximum allowable benefit is **\$1.88/sf**
- Partial allowances up to **\$0.60/sf** for single systems
- Interim lighting rule available up to **\$0.60/sf**



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How does the Inflation Reduction Act Make 179D *more valuable*?

NEW Eligibility

Tax-exempt entities

- charitable organizations
- churches & religious organizations
- private schools & universities
- private foundations
- political organizations
- other non-profits
- Native American tribal governments
- Alaska Native Corporations

Prevailing Wages

Requirements

Required for Max Benefit
on Construction
1/29/2023 and later

Safe Harbor Exists

Benefit Changes

Significant increase!

- The Inflation Reduction Act expands both the impact and scope of the 179D tax deduction.
- Beginning January 1, 2023, the maximum allowable benefit increases **from \$1.88/sf to \$5.00/sf** of building area.



How does the Inflation Reduction Act Make 179D *more valuable*?

Allocating Entities

- Federal, State, Local Governments
- charitable organizations
- churches & religious organizations
- private schools & universities
- private foundations
- political organizations
- other non-profits
- Native American tribal governments
- Alaska Native Corporations

Allocations are limited and typically first come first serve.

High likelihood of reduced or no benefit for last to act Designer





The benefit for the changes are **significant**

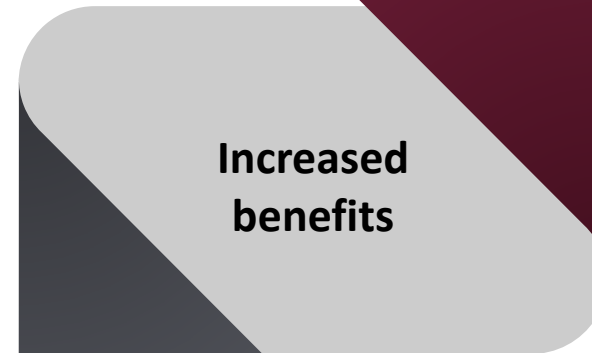
The maximum allowable benefit increases from **\$1.88/sf** to **\$5.00/sf** of building area,

a 165% benefit INCREASE

In 2022 and prior, a 250k sf middle school qualified for **\$470 thousand**



Increased benefits



In 2023+ the same middle school is now **\$1.25 MILLION!**



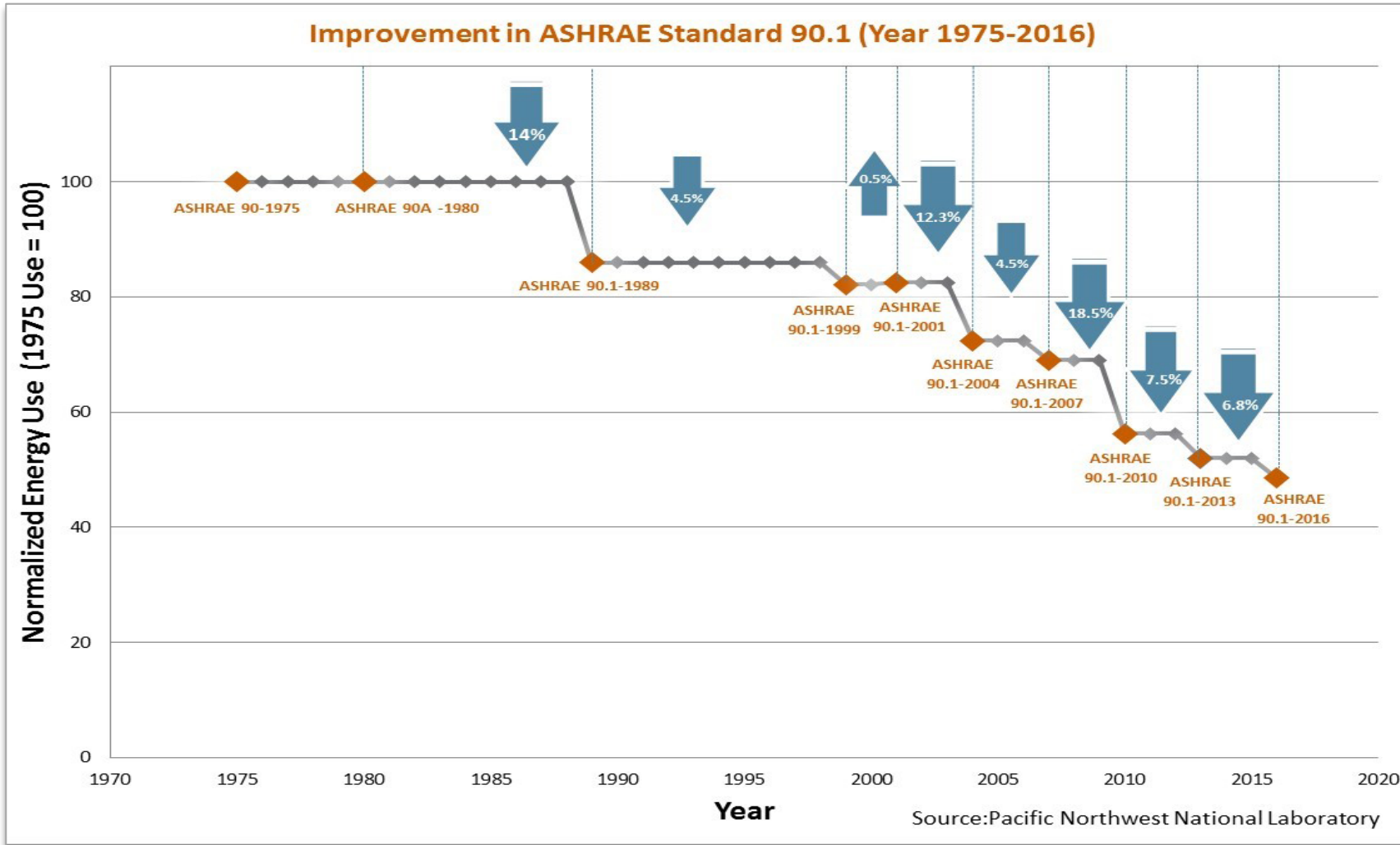
Summary of 179D Tax Deductions in detail

Compliance Path		Savings Requirement	Tax Deduction			
			taxable years before 2021	taxable year beginning 2021	taxable year beginning 2022	taxable year beginning 2023*
Fully Qualifying Property		25%	na	na	na	\$2.5/ft ²
		50%	\$1.80/ft ²	\$1.82/ft ²	\$1.88/ft ²	\$5.00/ft ²
Partially Qualifying Property	Envelope	10%	\$0.60/ft ²	\$0.61/ft ²	\$0.63/ft ²	na
	HVAC and HW	15%				
	Lighting	25%				
Interim Lighting Rule		25% - 40% lower lighting power density (50% for warehouses)	\$0.60/ft ²	\$0.61/ft ²	\$0.63/ft ²	na

*with prevailing wages

Example Case Study:

- 3 New Construction High Schools each at 500,000 sf
- 2022 year, Total Potential Deduction of **\$2,820,000 at 1.88 \$/sf**
- 2023+, Total Potential Deduction of **\$7,500,000 at 5.00 \$/sf**



**ASHRAE 90.1
Energy
Standards
thresholds are
increasing over
time,**

**making it more
challenging to
qualify
projects.**

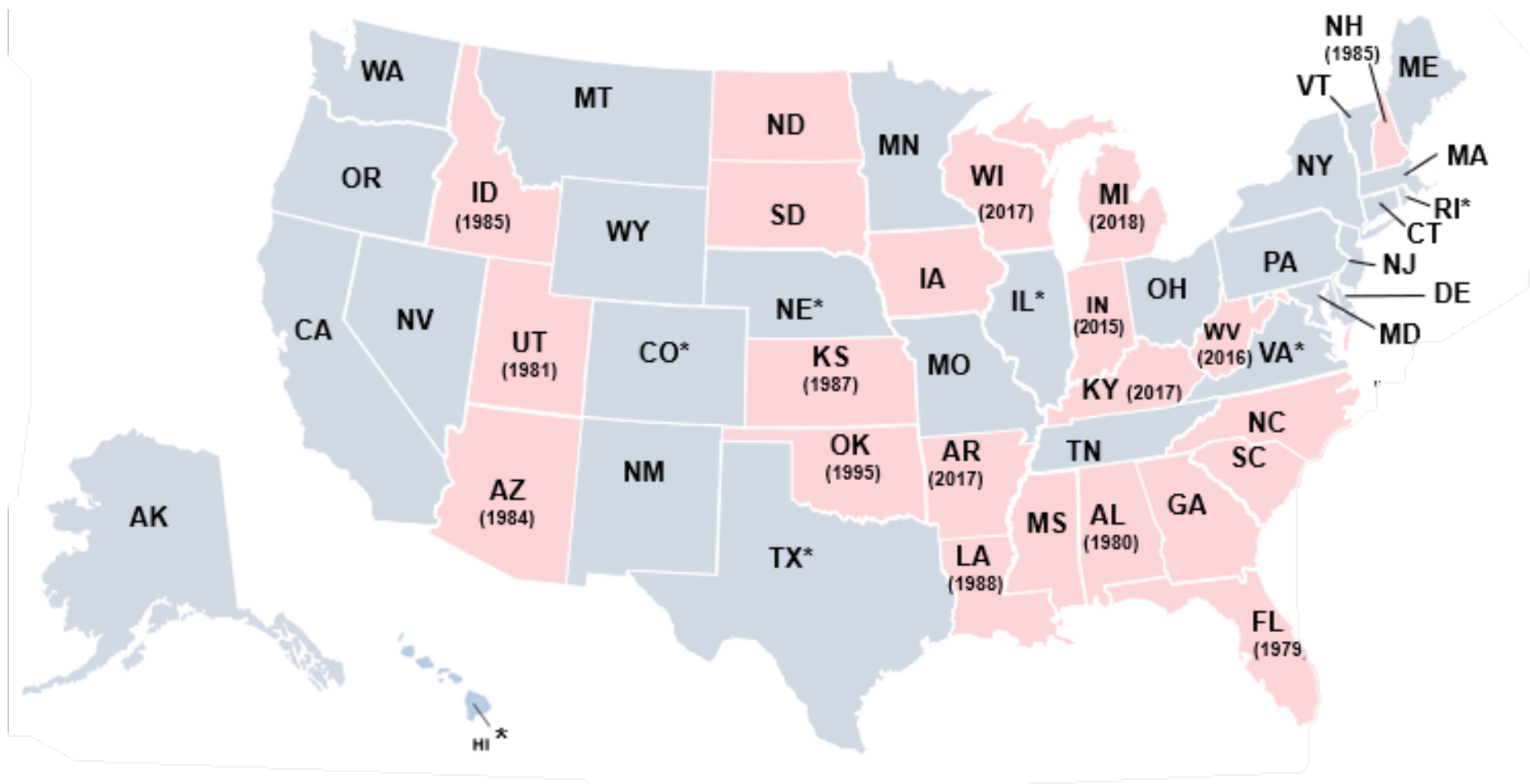


Prevailing Wages

- 01** A prevailing wage rate is a basic hourly paid rate set by the Department of Labor (DOL) - that focuses on the workers' specific craft.
- 02** The rate is determined by the type of work and the location of the project.
- 03** The wages are based on average wages employees with similar roles receive in the area.



State Prevailing Wage Map





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Two paths of 179D qualification

Traditional 179D

Strengthened via Inflation Reduction Act

Energy Efficient Commercial Building Property

- No More Partial Qualifications or Interim Lighting Qualifications
- Whole Building Only
- Energy Cost Savings compared to ASHRAE 90.1 Compliant Baseline Model
- Designed Building vs Simulated Building

Created via Inflation Reduction Act

Retrofit 179D

Alternative Deduction – Retrofit Property Retrofit

- Does not need to exceed ASHRAE Standards
- Focused on reductions compared to past actual usage
- No Energy Cost Component
- New Energy Usage vs Old Energy Usage
- Buildings Can Reclaim benefit
 - 3 Years for Owners
 - 4 Years for Tax Exempt



What is the Alternative Deduction – Retrofit Property?

- 01** Building Must be at least 5 years old
- 02** Requires a plan to reduce Site Energy Use Intensity by at least 25%
- 03** Comparison of actual historic use compared to post retrofit use
- 04** Can be difficult for buildings with high process use

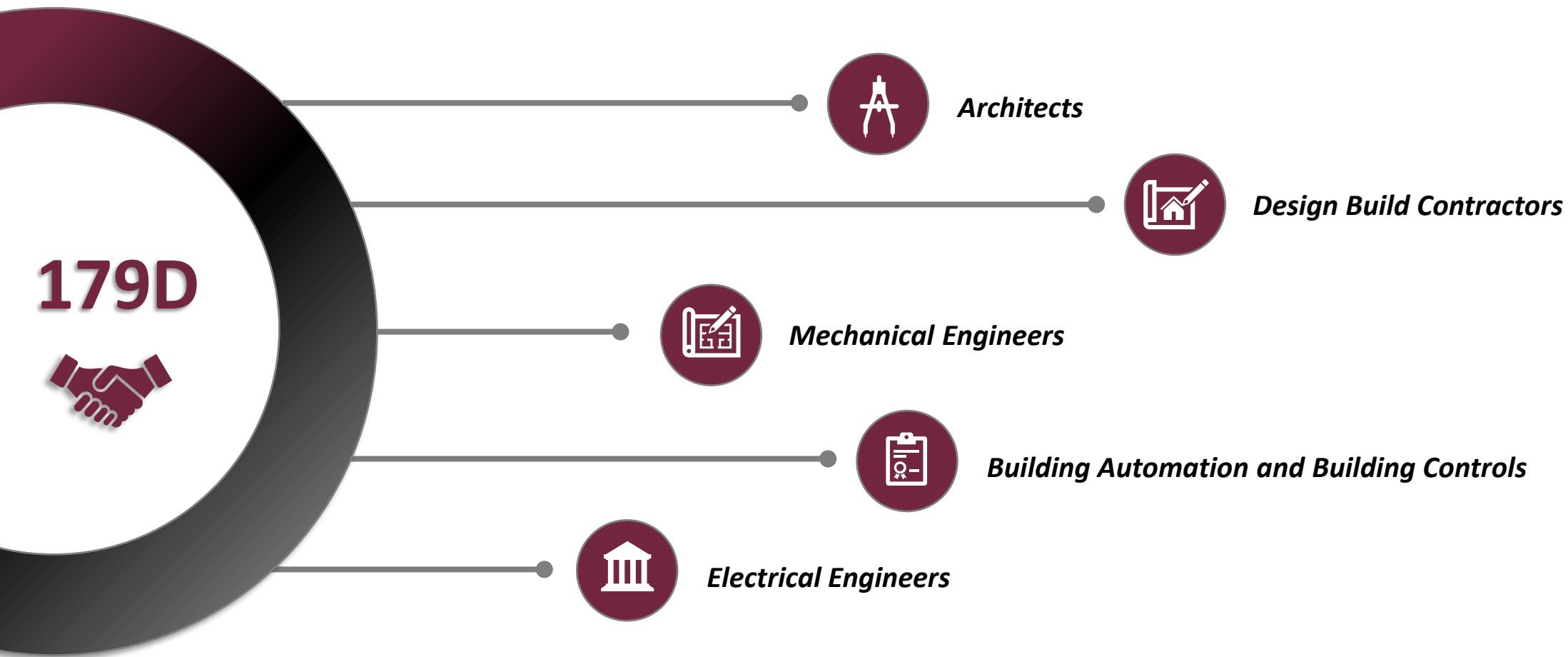


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What types of companies can claim 179D?





What types of projects qualify?

01

Heating, Ventilating, Air
Conditioning Systems and
controls



**HVAC
Systems**

02

Building Lighting and
Daylighting Systems



Lighting

03

Exterior Building Envelope
Systems



**Building
Envelope**



What types of buildings can claim 179D?

Federal, State, and Local Government



School and University



Tribal Lands (New!)



Non-Profit Projects (New!)



Commercial Buildings owned by your company



179D





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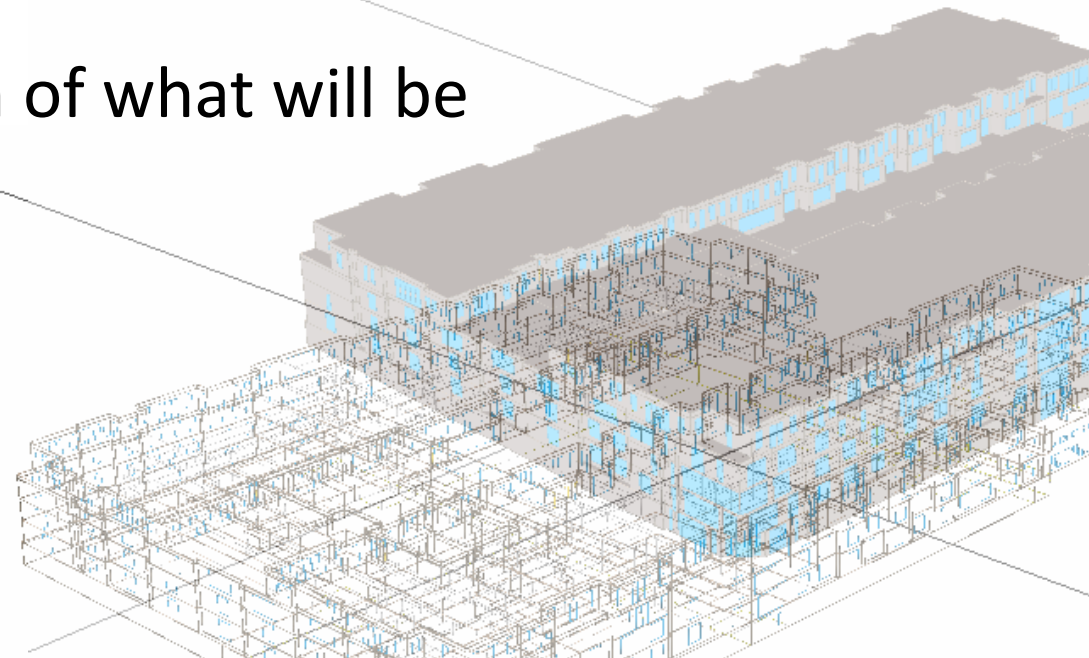
Calculation Methods *5min*

Q & A *15min*



Calculation Methods – What is an Energy Model?

- 01** 3D simulation of every hour of building energy use across all 8760 hours of the year
- 02** All aspects of Heating, Ventilation, Air Conditioning, Lighting, Insulation, and internal loads are considered
- 03** Creates an apples-to-apples comparison of what will be versus what could be





Case Study – Mechanical engineer across three buildings

Building Size	Year Complete	Qualification Amount	Deduction Amount
175,000	2020	1.80 \$/sf	\$315,000
320,000	2023	4.50 \$/sf	\$1,440,000
215,000	2023	5.00 \$/sf	\$1,075,000
Total Deductions			\$2,830,000



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Questions?

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TO EXPLORE 179D WITH KBKG FURTHER, BOOK A MEETING:

