



GOING GREEN FOR THE GREEN: FEDERAL TAX INCENTIVES FOR ENERGY EFFICIENT BUILDING



By So Sum Lee, CPA | *Principal - Tax*

There are several tax incentives available to the real estate industry. Whether you invest in, build, design, or make significant renovations to real estate, a closer look at these opportunities could increase cash flow and/or reduce tax burden. Most are familiar with Cost Segregation, but may reap the benefits of other unique incentives that are lesser known.

Early this year, two valuable provisions were extended by Congress through 2020: Sections §45L and §179D. While the benefits can be retroactively claimed if missed on previous tax returns, many miss out on the credit or deduction due to the temporary nature of the provisions. Each year, real estate professionals anxiously await Congress' decision to extend these temporary incentives. Even though these extenders make it difficult for tax planners, their value is what drives real estate developers, builders, and architects to seek out the benefit year after year. Here's why.

"Even though these extenders make it difficult for tax planners, their value is what drives real estate developers, builders, and architects to seek out the benefit year after year."

\$2,000 PER QUALIFIED DWELLING UNIT: 45L TAX CREDIT FOR RESIDENTIAL REAL ESTATE

Offering \$2,000 per qualified dwelling unit, this federal tax incentive creates huge returns for homebuilders and multi-family developers. Apartments, condos, affordable housing (LIHTC), assisted living facilities, residential condos, student housing, and production homes are great candidates for the credit, but must provide a certain level of heating and cooling in order to qualify. Buildings must also be three stories or less above grade in height. Reconstruction and rehabilitation for improved "green building" standards that decrease energy consumption should also be assessed for possible benefits as well. There

are no minimum or maximum requirements for number of units, as long as each unit meets the Section 45L requirements. In order to substantiate the credit, a third-party study is typically performed. Any unused credits can be carried back one year or forward for up to twenty years.

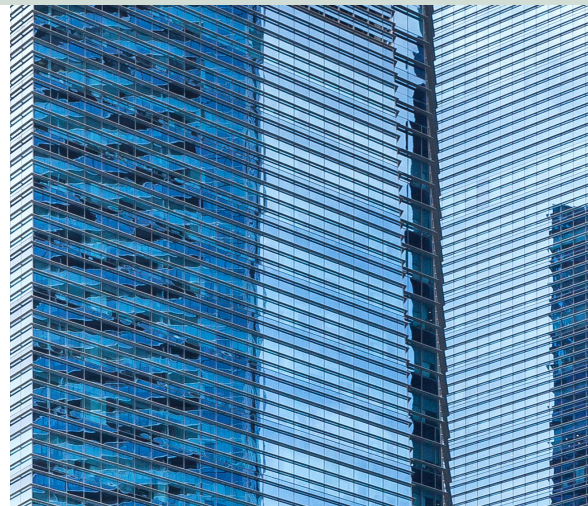


EXAMPLE:

An apartment building with 50 units that meet requirements under Section 45L will get a credit equals \$100,000 ($\$2,000 \times 50$ units).

WHAT ABOUT COMMERCIAL REAL ESTATE?

Section 179D is a federal deduction offering up to \$1.80 per square foot on energy-efficient lighting, HVAC systems, and building envelopes. Building owners of both commercial or residential spaces, tenants who make significant improvements, architects, and designers of government-owned buildings can benefit from this deduction. Any projects aimed at reducing energy and power costs, such as lighting retrofits, should be reviewed for possible eligibility.



EXAMPLE:

A building with 100,000 sq. ft. that meets that energy-efficiency requirement will get a deduction equals \$180,000 ($\$1.80 \times 100,000$ sq. ft.). At a 37% tax rate, this deduction translates to a tax savings of \$66,600.

CLAIMING 45L AND 179D

The IRS requires that taxpayers substantiate these benefits with a third-party provider that will perform a supporting study. The study involves a detailed engineering analysis that will require a site visit to review qualified units and energy improvements. A tax preparer can assist with the coordination of the study, and ensure that any missed benefits are retroactively claimed. ■



LEARN MORE ►

