

“HVAC Tax Credits – Thanks for Nothing!”

by Christopher Grawburg

For as much work is required to make buildings “green”, I have been surprised at how little financial reward there is for building owners for their efforts other than the obvious monthly utility savings of a more efficient building.

I was pleased to see that late last year, “October 3, 2008, President Bush signed H.R. 1424, *Emergency Economic Stabilization Act of 2008* which extends the benefits of the Energy Policy ACT of 2005 through December 31, 2013. Section 1331, *Energy Efficient Commercial Buildings Deduction*, of the Act establishes energy-efficiency commercial-building tax deductions for expenditures related to interior-lighting, HVAC, and hot-water systems and building envelopes. This opportunity potentially allows for the immediate expensing of costs that otherwise would be capitalized and recovered through depreciation over 27½ to 39 years.”¹

The Tax Benefit

The explanation of the tax benefit quoted from Michael Rader’s article cited below:

“Section 1331 makes provisions for a tax deduction limited to \$1.80 per square foot on new construction after Dec. 31, 2005, if total annual energy and power costs of interior-lighting, HVAC, and hot-water systems and the building envelope are at ***least 50-percent below the minimum requirements of ANSI/ASHRAE/IESNA Standard 90.1, Energy Standard for Buildings Except Low-Rise Residential Buildings.***”

“If an entire building does not qualify for the \$1.80-per-square-foot deduction, partial allowances may be made for individual systems. If within the scope of Standard 90.1-2001, HVAC and hot-water systems and building envelopes may qualify for deductions of up to 60 cents per square foot.”

Sounds great! \$1.80 is a nice deduction for the time, effort, and investment to make a building so much more energy efficient than ASHRAE 90.1. I have even taught HVAC classes to people who advised me that they sold their services on the promise of attaining such energy efficiency.

¹ “Energy-Efficiency Tax Benefits” by Matthew Rader, [HPAC Engineering](http://hpac.com/green/energyefficiency_tax_benefits/), http://hpac.com/green/energyefficiency_tax_benefits/



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Well, the gig is up....

The Reality

Building Design and Construction in their March 2009 magazine had an article detailing a NAIOP (Commercial Real Estate Development Association) report that calculated realistic levels of energy efficiency possible in commercial office buildings while remaining economically feasible. The study concluded that a 30% reduction above the ASHRAE standard was “**not feasible**” using common design approaches and would exceed a 10 year payback.” Woah!

But the *Energy Efficient Commercial Buildings Deduction* provision in the 2008 bill offered tax credits initially for exceeding ASHRAE 90.1 by at least 50%! The article went on to state that “[t]he study concluded the achieving a 50% reduction above the standard is **not currently reachable.**” So the bill offers a tax credit for an efficiency level that’s not even possible to achieve!

The tax credit does allow for partial tax deductions for small efficiency savings. However, the NAIOP study looked at exceeding ASHRAE efficiencies in cities across the United States and found that the most increased-efficient a building could realistically achieve was 23% in Chicago.

So it seems that Section 1331, *Energy Efficient Commercial Buildings Deduction* is tax credit that can’t be achieved leaving building owners to look for tax incentives elsewhere. There are those will build green out of their own environmental consciousness, there are a lot more who want it to make financial sense. With tax credits like this, all owners can say is “thanks for nothing.”



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