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Taking advantage of energy efficiency tax codes

Robert Pratzel, board member at tax advisory firm alliantgroup, says designers, contractors and others can qualify for 179D tax break

BY **ROBERT SCHOENBERGER**, of Today's Energy Solutions

Robert Pratzel is the former Chief Financial Officer and Treasurer with HOK Group Inc., one of the world's largest firms in the general design industry. During his tenure, the company grew five-fold and was recognized as one of the best managed and diversified practices in the country. In 2009, the St. Louis Business Journal voted Pratzel CFO of the Year.

Today, Pratzel serves as a member of the strategic advisory board for alliantgroup, a national tax advisory firm specializing in tax credits and incentives. Talking to Today's Energy Solutions, Pratzel offers his advice to designers currently exploring available tax credits and incentives.

TES: As a former CFO of a major architecture firm and in your current position, what types of tax incentives have you seen benefit the design world the most?

Pratzel: The two tax incentives I have seen as having the greatest impact for design and construction firms are definitely Section 179D, the Energy Efficient Commercial Building Deduction and the R&D Tax Credit. I have seen firsthand the power that both these tax incentives can have in propelling a practice forward. 179D was particularly beneficial to HOK, offering a substantial reduction in tax liability for a number of projects, ranging from the creation of a hospital's outer envelope with high-performance, low-emitting glazed curtains to heating and cooling improvements made to a laboratory facility. For everyday energy design work, complex or simple, the firm was able to save valuable tax dollars for reinvestment in other areas. Simply put, claiming these tax incentives expanded the types of services we could offer to our clients and improved our business in the long run.

TES: Could you elaborate more on 179D? How long has this incentive been around and what are its benefits?

Pratzel: 179D was originally passed by Congress as part of the 2005 Energy Policy Act. To address a number of growing environmental concerns and the nation's dependency on foreign oil, that law created a number of federal initiatives to encourage energy efficiency, with 179D serving as a key component of this legislation. When people think of energy consumption, the usual image is probably of someone pumping gas into a car.

However, the U.S. Green Building Council estimates that 73% of U.S. electricity consumption in this country actually comes from buildings – and 179D addresses this issue.

In a nutshell, 179D provides a benefit for businesses when they create or renovate a building (or design or renovate a government building in the case of design-based firms) that is energy efficient. Any eligible business performing these services can receive a tax deduction of up to \$1.80 per square foot, providing potentially valuable savings, depending on the size and scope of a project.

TES: When you say businesses and designers, who does that entail? Who can take advantage of the deduction?

Pratzel: As a general rule, I would break down the folks that can benefit into two separate groups:

The first group, commercial building owners, can qualify for energy efficient improvements made to their buildings within the last six years, taking the deduction in the current year on the basis of their improvements.

The second group, designers, can benefit for qualifying improvements made to government-owned buildings at the federal, state and local levels. Keeping in mind that government entities do not pay tax, 179D allows the government to allocate the tax deduction to designers performing eligible work on the building, allowing them to go back three years with their projects to claim the deduction.

Unfortunately, one of the reasons I think so many people overlook 179D is they don't understand the definition of a designer, or at least they don't according to the tax code. Of course the usual suspects, such as architects, engineers and energy service providers are all eligible, but 179D is far more expansive.

I have lost count of the number of times mechanical and electrical contractors have told me 179D isn't for them, either because they aren't the "primary designer" or for other reasons. The reality is contractors, energy service companies, environmental consultants, construction managers and more can take advantage of 179D, as long as they meet the qualifications.

TES: What are those qualifications? What kinds of buildings or projects qualify?

Pratzel: The definition of a building under 179D is broader than you might think. Structures ranging from office buildings, factories, warehouses, parking garages, barracks, schools, universities, airports – basically any structure that is built for any level of government – can definitely qualify for 179D. I emphasize this point because in my experience, people can have a limited vision of what a government building is, thinking only of military or federal buildings. When it comes to 179D, the local level is just as important and schools and universities are among some of the best candidates. Just recently, with **alliantgroup's help, one mechanical contractor received \$394,807 in federal tax deductions** for HVAC and hot water system improvements made to a university student housing center; so the value here is very much real.

As far as projects go, the deduction covers improvements and renovations made to interior lighting, heating, ventilation and air conditioning (HVAC), hot water systems or enhancements to a building's envelope. While that may seem expansive, just remember the hurdle to qualify isn't high. You only need to surpass 2001 ASHRAE (American Society of Heating, Refrigerating and Air-Conditioning Engineers) standards – standards that most state codes already surpass. So while building solar panels and windmills are nice, they aren't necessary for 179D.

TES: You mentioned before many people overlook 179D. Why?

Pratzel: That's a good question. Since I began working with alliantgroup, I have seen hundreds of companies

who either didn't know about 179D or were scared off because they misunderstood its requirements. In the end, the vast majority of those businesses were beyond satisfied with the deduction they received.

As with all tax incentives, I think the most important lesson is to keep an open mind and, under no circumstance, should a company ever self-censor. It never hurts to explore your options – you never know unless you try.

TES: What else we should know about the process for claiming 179D?

Pratzel: Eligible building owners can qualify by simply claiming the deduction on their tax returns. For designers receiving the government allocation, the process is a bit different, requiring the government entity to transfer the tax benefits through a specific, signed “allocation letter.”

Getting the allocation letter from the government is often the most time-consuming part of the 179D process, so I would recommend anyone exploring the possibility of 179D to seek the counsel of a qualified third party familiar with this specialized area of the tax code. As our firm assists architects, engineers and contractors with all aspects of the 179D process, we have created an entire team solely focused on obtaining allocation letters.

Most importantly, eligible companies should act quickly when securing the allocation letter. For the vast majority of government entities, 179D is a first-come, first-served proposition and companies should be mindful of this if they know the buildings they have serviced in the past have been worked on by other firms.

TES: How could impending tax extenders legislation impact 179D?

Pratzel: At some point in the next year, probably after November elections, eligible building owners and designers should once again anticipate a retroactive extension of 179D.

As it stands, that process is already underway, with the Senate Finance Committee in the markup stages of tax extender legislation that includes Section 179D. The proposed extension on the table would actually expand the incentive's reach, allowing tribal governments and public charities to allocate tax deductions to building designers just as government entities currently do. The committee is also seeking to update the current base thresholds to 2007 ASHRAE standards starting in 2015.

TES: Do you have any closing advice to anyone interested in 179D?

Pratzel: If you're on the fence, at the very least go out and explore a basic assessment. Again, you never know unless you try.



Robert Pratzel is former Chief Financial Officer and Treasurer with the international design firm of HOK Group, Inc., one of the world's largest firms in the general building design industry. As CFO, he served on the firm's holding company and various subsidiary boards of directors, as well as on its Executive Committee and Management Board. During his tenure, the company grew five-fold and became widely recognized as one of the best managed and diversified practices in the country. In 2009, Mr. Pratzel was voted CFO of the Year by the St. Louis Business Journal. Prior to his employment with HOK, Mr. Pratzel worked for 10 years in the audit division of Touche Ross & Co., prior to its merger with Deloitte. Besides his experience on auditing firms from a wide range of industries, he was also a frequent lecturer on the topic of cash management.