

Don't Leave Money on the Table

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The underutilized 179D tax deduction can benefit your design-build projects

For anyone who has relocated to a new office building or high-rise apartment, one of the most frustrating experiences is lugging furniture up flights of stairs only to discover a hidden freight elevator the moment after setting down the last box. For architecture, construction, design and engineering firms, the 179D tax deduction is just like that elevator, an easily accessible means of improving business by utilizing work already underway. The 179D tax deduction is intended to incentivize energy and eco-friendly building and design, and your business projects may well meet the deduction's requirements.

179D isn't new. Congress enacted Section 179D of the Internal Revenue Code as part of its 2005 Energy Policy Act to encourage the energy-efficient design and construction of new or renovated properties. While the deduction was originally created to reward commercial building owners and design-build contractors for environmentally friendly design, Congress realized after enacting it that the benefit was not being claimed in many government-owned construction projects. For this reason, the tax code was amended to allocate deductions for providers responsible for the energy efficiency of a qualifying building. Now, qualifying businesses can receive up to \$1.80 per square foot in deductions for eligible projects placed into service any time from 2008 to 2013.

With both economic and environmental concerns weighing upon the public conscience, 179D bridges the "either-or" divide. The long-term energy conservation has the potential to save money while reducing pollutants and waste. So, if companies are already "going green," why aren't more taking advantage of this tax deduction? Almost every time, companies are simply unaware of it or mistakenly believe they don't qualify.

Tax firm director Justin DiLauro finds that firms frequently qualify utilizing pre-existing systems. "What's most remarkable is that this deduction is available for following what the industry is already doing," DiLauro said. "We were working with an architecture firm that was designing a large hospital. In accordance with the guidelines, we found the deduction to be worth around \$900,000, but our team knew they were likely eligible for additional deductions resulting in the maximum deduction. We determined that the building's use of steam converted to hot water and fed into the HVAC system made them eligible for a total deduction of \$2.2 million."

From government to the private sector, firms involved in building construction need to model and re-check all their systems, as pre-existing ones can qualify. Keep in mind, energy conservation has been popular since at least the 1970s. Even systems that existed before the 2005 introduction of the law can meet the standards.

Former chief financial officer of architecture firm HOKGroup, Bob Pratzel, is an outspoken advocate of leveraging 179D. Pratzel has addressed how overlooking the 179D deduction is not just a missed opportunity but a disservice to architectural and engineering firms. Congress specifically intended for these businesses to take advantage of the powerful green incentive. 179D saves money on two fronts: the initial tax reduction and the

benefit of long-term saving for building owners through efficient resource-utilization. As Pratzel has said, “this deduction can make a huge difference to an architecture, construction or engineering firm financially, whether that be between having a good year and a great year, or between closing and staying open.”

The benefits from 179D close the decision-making gap between economic progress and environmental awareness. It's one of the best transitional resources to smarter, better, greener building.

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