

# Entrepreneur

## The Tax Break Most “Green” Entrepreneurs Forget

*Could your company use a tax deduction of hundreds of thousands of dollars?*

BY DEAN ZERBE, former Senior Counsel to the Senate Finance Committee and alliantgroup National Managing Director

While entrepreneurs are clearly seeing the opportunities of the green economy, many are not fully profiting from a key tax break that rewards their everyday environmental endeavors - 179D of the tax code.

For many architectural or engineering firms contracted by federal, state or local institutions - including state universities - there is a very good chance the work they perform on a daily basis could save them hundreds of thousands of tax dollars. If this sounds too good to be true, you are not alone in thinking so. An astoundingly low number of these businesses actually take advantage of tax-saving energy incentives.

The 179D deduction benefits architects and engineers when they design a new construction or renovation for energy-efficient buildings for the government. Any business performing these services on buildings at the federal, state and local levels may receive a **deduction of up to \$1.80 per square foot**, an obvious financial boon depending on the size and scope of the project.

Take for example a firm I've worked with that was designing a major international airport. To reduce the building's impact on surrounding groundwater, the firm created a water reclamation system, known as a "Water Box," to collect and cleanse rainwater from the roof through a series of filters, releasing back water into the environment. Alterations to both the interior and exterior of the building were made, and energy-efficient lighting and equipment was inserted to help reduce the use of electricity and natural gas. **The tax deduction for this firm under 179D was \$723,096.**

What buildings qualify? The definition of what constitutes a building under 179D is very broad and includes a variety of structures such as office buildings, factories, warehouses, parking garages, schools, universities, airports - basically any structure that is built for any level of government. How green do you have to be? The key to remember is that it is not a high hurdle to qualify for 179D. While the example above is impressive,

qualifying firms just need to surpass 2001 ASHRAE standards - standards that most state codes already surpass.

In addition, the building can partially qualify based off the **exterior, HVAC or lighting system**. Bottom line: you don't need grass on the roof or a windmill to qualify for 179D.

**Here are four steps to help you get there:**

1. The tax code allows eligible parties to benefit from 179D for any government buildings they designed (or retrofit) that have been placed into service in the last three years - so be mindful of those buildings.
  2. Confirm your business can benefit from 179D from a tax perspective. You may have qualifying government buildings you designed; you may have great green designs for those buildings - but be sure it makes sense from a tax point-of-view before moving forward.
  3. Secure an allocation letter from the government entity. The policy behind 179D was that Congress wanted to encourage energy efficient commercial buildings - including government buildings. Recognizing that government entities basically don't pay tax, Congress allows the governmental entity to transfer the tax deductions of the energy-efficient green building to the designer. This transfer of tax benefits is accomplished through a specific "allocation letter" signed by the government entity.
- A key to understand: you not only need to get the allocation letter, you need to ask for it before any designer receives an allocation letter for the project. It's a first-come, first-served tax benefit.
4. 179D is a trust-but-verify tax provision, meaning that you need to have an independent engineering firm review the building (*modeling, on-site visit, etc.*) to confirm the energy savings. We've found in practice this is actually a good thing, with our engineers sometimes finding greater energy savings after an on-site visit.

**With Section 179D, entrepreneurial architects, engineers and construction firms that are engaged in green design for the government can see significant tax savings to help grow and expand their business.**



**Dean Zerbe** is alliantgroup's National Managing Director based in the firm's Washington D.C. office. Prior to joining alliantgroup, Mr. Zerbe was Senior Counsel and Tax Counsel to the U.S. Senate Committee on Finance. He worked closely with then-Chairman and current Ranking Member of the Finance Committee, Senator Charles Grassley (R-IA), on tax legislation. During his tenure on the Finance Committee, Mr. Zerbe was intimately involved with nearly every major piece of tax legislation that was signed into law - including the 2001 and 2003 tax reconciliation bills, the JOBS bill in 2004 (corporate tax reform), and the Pension Protection Act. Mr. Zerbe is a frequent speaker and author on the outlook for short-term and long-term changes in tax policy, as well as ways accounting firms can help their clients lower their tax bill.

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