

The Energy Efficient Commercial Building Tax Deduction (CBTD)

This special tax deduction allows building owners (or tenants) to write off the complete cost of upgrading a building's indoor lighting, HVAC/hot water and building envelope in the year the new equipment is placed in service, rather than amortizing it over several years.

The Energy Efficient Commercial Building Tax Deduction (CBTD) is available for owners or tenants of commercial buildings that have energy efficient lighting, HVAC and building shell systems "placed in service" from January 1, 2006 through December 31, 2013.

Full Deduction:

To qualify, EPA Act 2005 and IRS Notice 2006-52 state:

- the project must be certified to reduce total annual energy and power costs to at least 50% less than a Reference Building satisfying the requirements of ASHRAE/IESNA 90.1-2001 solely through changes to the building's lighting, HVAC/hot water and building envelope;
- the cost must otherwise be depreciable for tax purposes;
- the project must be part of a new construction or renovation project within the scope of ASHRAE/IESNA 90.1-2001 (including addenda 90.1a-2003—transformers, 90.1b-2002—building envelope, 90.1c-2002—ducts, 90.1-d-2002—slab-on-grade floor insulation, and 90.1k-2002—piping insulation, as in effect as of April 2, 2003); and
- the project must be located in the United States or its territories.

Partial Deduction:

To qualify, EPA Act 2005 and IRS Notice 2006-52 state the project must be certified to reduce total annual energy and power costs to at least **10-20%** less than a Reference Building satisfying the requirements of ASHRAE/IESNA 90.1-2001. These savings must be achieved solely through changes to one of the three qualifying building systems or features. IRS Notice 2008-40 created a choice of two sets of savings targets:

	Indoor Lighting	HVAC/Hot Water	Building Envelope
% savings Choice 1	16.66%	16.66%	16.66%
% savings Choice 2	20%	20%	10%

Note that a CBTD claimed under these rules is limited to the sum of the deductions allowable for any two qualifying systems.

In addition:

- the cost must otherwise be depreciable for tax purposes;
- the project must be part of a new construction or renovation project within the scope of ASHRAE/IESNA 90.1-2001 (including addenda 90.1a-2003, 90.1b-2002, 90.1c-2002, 90.1d-2002 and 90.1k-2002 in effect as of April 2, 2003); and
- the project must be located in the United States or its territories.

To determine if your project meets these systems savings guidelines, contact a licensed architect or engineer.

Contact a licensed tax advisor for help with IRS questions.

Definition of a tax deduction:

A tax deduction only reduces the taxable income of your business. It is subject to the variation in the progressive tax rate.

Example: Imagine a building improvement such as replacement of T-12 fluorescent bulbs and magnetic ballasts with T-8 bulbs and electronic ballasts. If the upgrade qualifies for a partial federal tax deduction of \$.60 per square foot, and the building is 1000 sq. ft. in size, a \$600 tax deduction is realizable. The partial deduction reduces the taxable income by \$600. Since the tax rate varies depending upon gross income, the amount of tax saved depends on whatever tax rate is applicable. If the taxpayer is taxed at 25%, the \$600 reduction in income would result in a savings of $\$600 \times .25 = \150 .

