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179D DEDUCTION: WHAT TAX PROFESSIONALS MUST KNOW

WHAT is the 179D Deduction?

- Federal incentive that rewards energy-efficient construction and design
- Available for newly constructed, renovated, or expanded properties
- Deduction is per square foot – the larger the property, the larger the benefit
- The Inflation Reduction Act (IRA) increased the maximum benefit to $5.81/SF (with adjustment for inflation)

WHO Can Claim the 179D Deduction?

- Commercial building owners or tenants
- Owners of residential rental properties that are 4 or more stories above grade
- Real estate investors and developers
- Designers of government buildings or properties owned by tax-exempt entities
  - Architects, engineers, contractors, environmental consultants

WHY Consider the 179D Deduction?

- Lucrative incentive that can be incorporated into planning
- Under new legislation, incentive may be claimed every 3 years on a commercial building and every 4 years on a building owned by a tax-exempt entity (assuming property continues to meet or exceed relevant energy standards)
- Can be performed at the same time as a look-back cost segregation study by filing 3115s with two different DCNs – may stack the strategies for additional benefit
- Example: Newly constructed select-service hotel including LED lighting, additional roof and wall insulation, and "green" HVAC equipment and controls
  - Affected area: 161,843SF
  - Total Deduction: **$867,478** (with max benefit of $5.36/SF)

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Under the One Big, Beautiful Bill Act (OB3), properties must begin construction by 6/30/2026 in order to claim the 179D Deduction.

HOW is the 179D Deduction Claimed?

- Need to have impacted the building envelope, interior lighting, or HVAC system of a newly constructed, renovated, or expanded property
- Energy analysis, inspection, and certification by a qualified third party is required
- Both owners and designers claim the Deduction using Form 7205
  - IRA Properties -- placed-in-service after 12.31.2022 -- the updated Dec. 2023 revision is used
  - Legacy Properties – placed-in-service before 1.1.2023 – the Dec. 2022 revision is used
- Deduction is best claimed in the year of construction, but may be claimed retroactively
- For projects in which construction began on/ after 1.30.2023, must meet Prevailing Wage and Apprenticeship Requirements to maximize benefit

Efficiency Increase Over Baseline	Deduction Amount* (Without PW)	Deduction Amount (WITH PW) *
25% (Minimum needed to qualify)	$0.50/SF	$2.50/SF
30%	$0.60/SF	$3.00/SF
35%	$0.70/SF	$3.50/SF
40%	$.80/SF	$4.00/SF
50% (Maxes out)	$1.00/SF	$5.00/SF

*Amounts will adjust for inflation

WANT TO LEARN MORE?

VISIT - https://capstantax.com/179d-energy-deduction/

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