

Tax Credits for Energy- Efficient Building Improvements

An Overview by Reeder CPA Group



In an era where sustainability meets fiscal responsibility, leveraging tax credits for energy-efficient building improvements presents a significant opportunity for both commercial and residential property owners. These incentives not only contribute to environmental conservation but also offer substantial financial benefits through tax savings. At Reeder CPA Group, we specialize in guiding property owners through the myriad of available tax credits, ensuring that your investments in energy efficiency yield optimal returns. This guide explores the various tax credits available for energy-efficient improvements in both business and non-business settings, providing you with the insights needed to make informed decisions and enhance your property's value and sustainability.

Understanding Energy-Efficient Tax Credits

1. For Commercial Property Owners

- ▶ **Commercial Building Energy Efficiency Tax Deduction (Section 179D):** A significant incentive for commercial property owners to enhance energy efficiency within their buildings, the Section 179D deduction encourages upgrades to lighting, HVAC systems, and the building envelope. Starting in 2024, the deduction framework is adjusted to offer up to \$5.65 per square foot, with the deduction amount directly tied to the project's adherence to prevailing wage and apprenticeship requirements, and the extent of energy savings achieved over ASHRAE Reference Standard 90.1 standards in effect four years prior to the building's service date.
 - » **For projects meeting prevailing wage requirements:** The deduction begins at \$2.50 per square foot, increasing by \$0.10 for each additional percentage of energy reduction, up to the maximum of \$5.65 per square foot.
 - » **Without prevailing wage adherence:** The deduction starts at \$0.50 per square foot, with each additional percentage of energy reduction adding \$0.02 per square foot, capping at \$1.00 per square foot.
 - » Projects initiated before January 30, 2023, can qualify for the higher tier of deductions without meeting prevailing wage rates, while those started on or after this date must comply to be eligible for the enhanced deduction range.
 - » This strategic adjustment not only fosters a greater incentive for implementing energy-efficient designs but also aligns with broader economic and labor standards, providing a clear pathway for commercial property owners to significantly benefit from tax deductions while contributing to environmental sustainability.

2. For Residential Property Owners

- ▶ **Residential Energy Efficient Property Credit (Section 25D):** Homeowners investing in renewable energy installations are eligible for this credit, which now includes solar electric, solar water heating, small wind energy, geothermal heat pumps, and fuel cell property, with the addition of battery storage technology. The credit rate is 30% for expenditures, applicable for property placed in service after December 31, 2021, and before January 1, 2033. The phase-down begins in 2033 to 26% and 22% in 2034, with no credit available for property placed in service after December 31, 2034. Notably, fuel cell property expenditures are capped at \$500 for each half kilowatt of capacity, with specific limitations for shared residences. These systems must be installed in a residence used by the taxpayer, including primary and second homes, but notably, rental properties used solely for business purposes do not qualify.
- ▶ **Nonbusiness Energy Property Credit (Section 25C):** Significantly updated by the Inflation Reduction Act of 2022, this credit has been enhanced from a lifetime credit to an annual one, with the possibility of up to \$1,200 per year for qualifying energy-efficient home improvements, including building envelope improvements and certain residential energy property expenditures, effective January 1, 2023, through December 31, 2032. Notable inclusions are energy audits, exterior doors, windows, and skylights, with specific caps per category (e.g., \$250 per door, up to \$500; \$600 for windows and skylights; \$600 per item for certain energy property). Additionally, heat pumps, biomass stoves, and boilers have a separate \$2,000 limit. The credit now encompasses a broader range of improvements and introduces annual limits, encouraging ongoing investment in home energy efficiency.

Strategies for Maximizing Tax Credits

- ▶ **Assessment and Planning:** Conduct a thorough assessment of your property to identify potential improvements that qualify for tax credits. Prioritize projects based on their cost, energy savings potential, and tax credit eligibility.
- ▶ **Documentation and Certification:** Maintain detailed records of all energy-efficient improvements, including receipts, certifications, and before-and-after energy usage assessments. Proper documentation is crucial for claiming tax credits.

Leveraging Incentives for Long-Term Savings

- ▶ **ROI Analysis:** Evaluate the return on investment (ROI) for each improvement, considering both immediate tax savings and long-term energy cost reductions. We assist in this analysis, ensuring that your investments align with financial and environmental objectives.
- ▶ **Sustainability Goals:** Incorporate energy-efficient improvements into your broader sustainability strategy. Beyond tax savings, these investments contribute to environmental conservation and can enhance your property's marketability and value.

Staying Informed on Federal and State Opportunities

- ▶ **Federal Incentives:** Federal tax credits are periodically updated, with changes in eligibility criteria, credit amounts, and expiration dates. We provide timely updates and strategic advice on navigating these changes.
- ▶ **State and Local Incentives:** Many states and localities offer additional incentives for energy-efficient improvements. We help you explore these opportunities to maximize your benefits.

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