

The Energy Efficiency Commercial Building Tax Deduction

An Overview of H.R. 6, The Energy Policy Act of 2005 (Public Law 109-5) and Recent Updates



Overview

President George W. Bush made history on August 8, 2005 by signing into law H.R. 6, the “Energy Policy Act of 2005,” which includes precedent setting provisions for energy-efficient commercial buildings. Specifically, the law provides tax deductions for owners of commercial buildings that exceed ASHRAE 90.1, the “Energy Standard for Buildings Except Low-Rise Residential Buildings.” The legislation has the potential to dramatically affect the commercial building industry, particularly given current concerns about rising energy costs. In the past, payback times for energy-efficient upgrades were the primary economic incentive for building owners; however, this deduction serves as a “first-cost” incentive – i.e. a portion of the cost of the upgrade is returned to the building owner at the end of their taxable year.

The Tax Deduction

The “Energy Policy Act” provides a tax deduction for building owners who make building improvements that reduce energy and power costs by 50 percent over ASHRAE 90.1-2001. This level of performance is a significant improvement and the good news is that existing insulation, HVAC and lighting technologies can effectively meet this criteria. Specifically, the tax deduction is equal to the cost of energy-efficient improvements installed in a building up to a maximum limit of \$1.80 per square foot. To qualify, the energy-efficient commercial building improvements must be installed as part of one or more of the following three building systems: interior lighting; heating, cooling, ventilation and hot water; and the building envelope.

Partial Deductions Available

In the case where energy-efficiency improvements do not meet the overall 50 percent energy cost reduction threshold, a partial tax deduction (of up to 60 cents per square foot) will be allowed for each of the three building systems previously mentioned. To qualify, the improvements must be equal to or exceed system-specific savings targets established by the Secretary of the Treasury. Roof systems on low-rise buildings with enhanced insulation levels is an attractive option, along with other measures, for meeting the building envelope savings target, which has been set by Treasury at 10 percent. Another issue involving partial tax deduction relates to improvements to two systems. In this case, it will be possible for building owners to obtain a \$1.20 deduction per square foot for upgrading two building systems, such as the heating, ventilating and air-conditioning (HVAC) system and the envelope system. As with individual building system upgrades, to qualify, the improvements must equal or exceed system-specific savings targets to be established by the Secretary of the Treasury.

Certification Required

The law states that the property must be certified as part of a plan designed to reduce the energy and power costs of a building by 50 percent or more compared to a similar building meeting the ASHRAE 90.1-2001 standard. As part of the certification process, the law requires the use of DOE approved software to calculate

the energy savings. In addition, the law notes procedures for inspection and testing by qualified individuals to ensure compliance with the energy-savings plans and targets.

Public Buildings

With respect to this new legislation, public buildings, such as schools and other government-owned buildings may be eligible for a deduction. In this case, the deduction may be allocated or transferred to the person primarily responsible for designing the property instead of the owner. In addition to this federal legislation, many states, including California, North Carolina, Maine, Oregon and Washington, are enacting laws requiring Leadership in Energy and Environmental Design certification for state-owned buildings.

Polyiso and the New Law

Inch for inch, polyiso insulation has the greatest energy efficiency performance of any building insulation product on the market. It has a high, third party certified long term thermal R-value (LTTR), the measure of thermal resistance used to describe an insulating material's effectiveness. In independent testing, polyiso's thermal performance has proven to exceed other common insulating materials. Because of its high R-value per inch, polyiso can easily be used to help building owners meet and exceed the requirement of the new law.

The Effective Date of the Legislation

As originally enacted, the deduction was effective for property placed in service from Jan. 1, 2006, through Dec. 31, 2007. Through the efforts of PIMA, along with many other industry and energy efficiency advocates, the deduction has since been extended twice and is now effective to the end of 2013.

For more information about this new law, visit www.pima.org.

PIMA

For over 20 years, PIMA (Polyisocyanurate Insulation Manufacturers Association) has served as the unified voice of the rigid polyiso industry proactively advocating for safe, cost-effective, sustainable and energy efficient construction.

PIMA produces technical bulletins in an effort to address frequently asked questions about polyiso insulation. PIMA's technical bulletins are published to help expand the knowledge of specifiers and contractors and to build consensus on the performance characteristics of polyiso. Individual companies should be consulted for specifics about their respective products.

PIMA's membership consists of manufacturers of polyiso insulation and suppliers to the industry. Our members account for a majority of all of the polyiso produced in North America.

SAFETY

Polyiso insulation, like wood and other organic building materials is combustible. Therefore, it should not be exposed to an ignition source of sufficient heat and intensity (e.g., flames, fire, sparks, etc.) during transit, storage or product application. Consult the product label and/or the PIMA members' Material Safety Data Sheets (MSDS) for specific safety instructions. In the United States, follow all regulations from OSHA, NFPA and local fire authorities; in Canada, follow all regulations from Health Canada Occupational Health and Safety Act (WHMIS) and local fire authorities.

For more information on polyisocyanurate insulation, visit www.polyiso.org



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