

# 179D – Energy Efficient Commercial Building Tax Deduction

The 179D Commercial Buildings Energy-Efficiency Tax Deduction is a program enacted in the Energy Policy Act of 2005 (EPAct) that allows building owners to claim tax deductions for installing qualifying energy-efficient systems in newly constructed or renovated commercial buildings that were put in service prior to 2022.

The Inflation Reduction Act of 2022 (IRAct) updated the calculation methodology and types of buildings placed in service beginning in 2023 and after.

## Who is Eligible to Claim the Deduction?

- Commercial building owners can claim the deduction if they install qualifying systems in their buildings.
- Tenants may also be eligible if they make construction expenditures for energy efficiency.
- If the system or building is installed on federal, state, or local government property, the deduction may be allocated by the non-tax paying entity to the designer primarily responsible for the building system's design drawings.
- IRAct 2023 Update: Buildings owned by religious, charitable, and tribal organizations now qualify and can allocate the deduction to the designer primarily responsible for the building system's design drawings.

## What are the Energy Efficiency Requirements?

- The deduction applies to three types of systems:
  - Interior lighting
  - Building envelop
  - Heating, cooling, ventilation, and hot water system
- These systems must reduce energy/power costs by 50% or more compared to a base building meeting minimum requirements set by the ASHRAE Standards to receive the full deduction.
- Cost savings must be calculated using qualified IRS computer software.
- IRAct 2023 Update: A sliding scale of 25% to 50% energy efficiency was implemented based on the combined energy efficiency of the three building systems.

# What Types of Buildings Qualify (Min 40,000 sq ft)



Warehouses



Office



Retail  
Properties



Manufacturing  
Properties



Multi-Family  
Developments (4+ Stories)



Government  
(Designers)



IRAct 2023 Update: Religious,  
Charitable, And Tribal  
Organizations (Designers)



## What is the Deduction Amount?

- A base deduction from \$0.60 to \$1.88 per sq. ft. (buildings put in service 2006-2022V)
- IRAct 2023 Update: A base deduction from \$0.54 to \$1.15 per sq. ft. and a bonus deduction from \$2.68 to \$5.81 per sq. ft. if the prevailing wage and apprenticeship standards are met. (buildings start construction in 2023 going forward)

## How Do I Claim the Deduction?

In order to claim the deduction, a Section 179D compliance study ("a Section 179D Certification") must be performed by an independent firm or individual to verify the deduction. IRS Revenue Procedure 2011-14 now makes it possible to take the Section 179D tax deduction for qualifying projects already installed after 2006 by way of a Form 3115 automatic "change of accounting" method on the next regular tax filing, without amending prior year tax returns.



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