

2023 Updates to 179D Deductions for Commercial Buildings

The Inflation Reduction Act, passed in 2022, is the largest energy-efficient spending legislation in United States history. In addition to implementing several new green energy funds and sustainability initiatives, it also modifies the existing commercial property energy conservation deduction, the Internal Revenue Code Section 179D. This change expands the number of commercial property owners and eligible designers who can claim the deduction and increases the financial payout for most recipients.

For 2023, 179D Nearly Triples Tax Incentives, Lowers the Thresholds, and Expands Eligibility to Tax Exempt Organizations.



The newly updated 179D Energy Efficient Commercial Building Deduction in the recently passed Inflation Reduction Act (IRA) has some of the most significant updates to incentives for property owners and designers to improve the efficiency of their buildings. It encourages sustainable building projects with higher incentives more widely available to building owners and project design consultants, building on the original Energy Policy Act (EPA) of 2005 Section 179D, which has had smaller incremental adjustments in previous years.

Bigger Incentive with Lower Energy Savings Threshold

The new Act effective January 1, 2023, raises the deduction value from the current maximum of \$1.88 per square foot up to a maximum of \$5.00 per square foot, with new criteria for meeting prevailing wage and apprenticeship requirements (and much lower incentives if these are not met). In addition, the Act lowered the minimum required savings in total annual energy and power cost from a 50% reduction to a 25% reduction, compared to ASHRAE Reference Standard 90.1-2007 (until updated); it also includes an alternate retrofit design approach using Energy Use Intensity (EUI) instead of savings percentage. For those projects meeting the 25% savings threshold and the prevailing wage and apprenticeship requirements, the Act offers \$2.50/sf, plus incremental \$.10/sf for



each percentage of savings up to 50% at \$5.00/sf. These changes also shift the focus to a whole-building energy impact vs. a per-system approach, where lighting, HVAC, or envelope work would each get a ~\$.60/sf allocation.

More Buildings & Organizations Qualify: Benefits for Tax Exempt

Previously, only commercial building owners and designers of buildings owned by Government entities could qualify for the 179D incentives. But now buildings and energy-efficient retrofit systems designed for tax-exempt organizations qualify, including

- Charitable organizations
- Religious institutions
- Private schools or colleges
- Private hospitals
- Museums
- Tribal governments
- Non-for-profit organizations

Engineers, architects, and energy-efficiency design/build contractors can now claim the 179D deduction for projects done with tax-exempt organizations that assign the designation.

HVAC & HOT WATER SYSTEMS

For HVAC systems, qualifying energy-efficiency projects can include installing newer high-efficiency equipment (e.g., heat pumps, VRF, etc.) and/or the addition of smart HVAC automation controls to existing equipment, such as chillers, boilers, air handling units (AHUs), rooftop units (RTUs), energy recovery ventilators (ERVs), Fan Coils, VAVs, etc. When HVAC systems are inefficient or nearing end-of-life, we design and recommend the most appropriate “deep green” turnkey solutions, “right-sized” for the demand of the building.

And, the addition of variable frequency drives (VFDs), high-efficiency motors, and power factor correction solutions can also contribute to the savings and meeting the threshold for 179D.

The energy savings are typically very dramatic, often reducing HVAC - which is typically a large percentage of building load - by 20-30% or more. So, not only do

these changes help the building qualify for the 179D incentive, but they also result



in updates that are a valuable long-term investment in reduced utility costs, lower operations and maintenance, improved environment and air quality, and a lowered carbon footprint.

Bottom Line: Energy Efficiency Offers Impressive Financials with a Boost from 179D

179D tax deductions are one of several beneficial incentives for improving energy efficiency in commercial buildings. When combined with depreciation, grants, and rebates, the net cost to building owners is significantly reduced (typically 20-50%), speeding the ROI payback timeframe based on simple energy savings alone. The added value beyond energy savings includes reduced operations and maintenance costs, plus enhanced property value and tenant attraction and retention. In addition, special low-interest financing can help to cover the costs, often with a cashflow-neutral model where your payment equals what you would have been paying for the utilities.

What is the process for claiming the 179D? Reach out to [ABB Building Solutions](#) for next steps.

