



Tax Incentives for Energy Efficiency- Reduce Payback Period



Enhancing Energy Efficiency, Improving Sustainability and Reducing Tax Burden

Our clients' confidentiality is of utmost importance to us! Our case studies are examples of actual companies that utilized Capital Discovery® to improve their financial health.

Case Study

A large steel manufacturer in the Midwest was considering improving their energy efficiency. They had an entire warehouse filled with old hi-bays (Halogens) that had 400w bulbs and were consuming a huge amount of energy individually as well as generating a significant amount of heat. They knew they had to replace the fixtures and wanted to ensure it was done in the most economically advantageous way possible.

Challenges

- Replacing approximately 88,000 square feet of old hi-bays.
- Reducing the simple payback period (SPP) by installing T-5's with a fixture wattage of 234w – thereby justifying the project
- Reducing energy consumption and improving sustainability.
- Capitalizing on all tax opportunities associated with energy efficiencies.

Community Impact

The steel manufacturer has a strong desire to stay on the cutting edge of their industry and to promote sustainability in the community. The lighting solutions being considered not only have an immediate impact on the quality of the light levels, they also have long-term positive effects, promoting efficiency productivity and sustainability within the company, the industry and ultimately the community.

Solutions & Capital Discovery®

The Energy Policy Act of 2005 contained several tax measures, including deductions available under section 179D and became effective January 1, 2006. Section 179D allowing building owners to receive deductions of \$.60 per sq/ft for energy efficient lighting, \$.60 per sq/ft for HVAC and \$.60 per sq/ft for building envelope, creating a potential deduction of \$1.80 per sq/ft that could be directly taken by the steel manufacturer. This is described in IRS Notice 2006-52. There is also an opportunity to receive a large tax deduction for removing old lighting fixtures through an abandonment study.

Based on the qualifying square footage (88,000) of the warehouse and the lighting project that was completed, the company was entitled to a 179D deduction of approximately \$53,000. Additionally, the Company received an abandonment deduction of an additional \$92,000 for removing the old hi-bays. Ultimately, the Company increased efficiency by approximately 40% and received an immediate tax deduction nearing \$145,000.

