

# 2022 Inflation Reduction Act

## Qualifying for the 179D Tax Deduction



The **Inflation Reduction Act (IRA)** was passed into federal law in August 2022. It is a 10-year plan that addresses deficit reduction, invests in domestic energy production and manufacturing, and aims to achieve a 40-percent reduction of carbon emissions by 2030.

The IRA specifically directs \$369B of funding to energy security and climate change, including provisions that offer tax credits and grants for investment in properties that boost clean energy and drive decarbonization climate goals.

Enlighted solutions are proven to help customers achieve their energy and carbon neutral goals, and our products meet the ASHRAE standards required to apply for the 179D tax deduction.

### 179D Tax Deduction

The 179D tax provision was initially enacted under the 2005 Energy Policy Act (EPACT) and allows for a tax deduction of up to \$1.88/sf on types of new construction

or retrofit projects specifically targeting lighting and HVAC systems, as well as the building envelope.

The current version of 179D remains in effect for properties in service in 2022. Under new IRA qualification criteria, however, energy-efficient buildings in service from Jan. 1, 2023 to Dec. 31, 2032 have an opportunity to increase the deduction from \$1.88/sf up to \$5.00/sf.

#### Eligibility

Customers who install Enlighted lighting and HVAC solutions may be eligible for the 179D tax deduction.

- The tax provision applies to tax-paying commercial buildings and parking garages that reduce energy use and power costs for interior lighting, HVAC, and the building envelope.
- For non-taxable government entities, the deduction may be eligible for allocation to parties involved in the design of the energy-efficient systems, including architects, engineers, ESCOs, and energy consultants. Such parties must maintain records of the allocation.

## Qualification

**For projects in service before 2023**, buildings that meet or exceed a 50-percent savings in energy and power costs may qualify for a \$1.80/sf deduction. Partially qualifying systems for lighting, HVAC, and building envelope may be eligible for smaller deductions.

**For projects starting in 2023**, the base deduction starts at \$0.50/sf for a 25-percent improvement in energy and power costs. Plus,

- Projects that meet **prevailing wage and apprenticeship requirements** (which were introduced in the 2022 IRA) can receive the base \$0.50/sf and an *additional* \$2.50/sf. And for every one percent of additional reduction above 25 percent, the deduction provides an additional \$0.10/sf, up to \$5.00/sf.
- Projects that **do not meet prevailing wage and apprenticeship requirements** can still receive the base \$0.50/sf. And for every one percent of additional reduction above 25 percent, the deduction provides an additional \$0.02/sf, up to \$1.00/sf.

## Certification

Taxpayers must complete a qualifying certification and inspection as part of the process to apply for the 179D tax deduction. The certification and inspection must be completed by a third-party qualified engineer or contractor who is practicing in the jurisdiction of the qualifying building; the building owner must maintain all records after certification.

- **Computer modelling:** Certification requires cost savings be evaluated using a computer modelling comparison with a baseline building that meets ASHRAE Reference Standard 90. This third-party evaluation must be performed using software approved by the Department of Energy.
- **On-site inspections:** Third-party field inspections must be performed after the energy-efficient property is up and running.

## Government resources

- **The White House - CleanEnergy.gov:** [Inflation Reduction Act Guidebook](#)
- **Internal Revenue Service:**
  - » [Inflation Reduction Act of 2022](#)
  - » [News on the IRA](#)
  - » [Notices for IRA](#)
  - » [179D application process](#)
- **Department of Energy:**
  - » [Inflation Reduction Act of 2022](#)
  - » [179D Commercial Buildings Energy-Efficiency Tax Deduction](#)
  - » [Qualified Software for Calculating Commercial Building Tax Deductions](#)
- **Department of Labor:** [Prevailing Wage and the Inflation Reduction Act](#)

## Prevailing wage and apprenticeship requirements

The prevailing wage and apprenticeship requirements for the 179D tax deduction were among the major changes initiated by the 2022 IRA. For projects started after Jan. 19, 2023, taxpayers must comply with the new prevailing wage and apprenticeship provisions to be eligible for the maximum deduction. Compliance and records are typically managed and maintained by construction managers and installation technicians. However, before beginning new projects, it is recommended to first check with facilities and construction managers, as well as tax departments, to ensure compliance.

## IRA Energy Savings Available Tax Credits

Gain over Baseline Energy Efficiency Standards	Baseline Tax Deduction Rate	Rate With Prevailing Wage and Apprenticeship Standards
25% (minimum)	\$0.50/sf	\$2.50/sf
30%	\$0.60/sf	\$3.00/sf
40%	\$0.80/sf	\$4.00/sf
50% (maximum)	\$1.00/sf	\$5.00/sf

### Enlighted solutions

Enlighted solutions are proven to help customers achieve their energy and carbon neutral goals.

- Lighting hardware compliance with ASHRAE 90.1-2017 standards required to qualify for the 179D tax deduction
- [Lighting Solution Sheet](#) - Up to 90% lighting energy savings
- [HVAC Solution Sheet](#) - Up to 36% HVAC energy savings
- [Sustainability Brochure](#) - Thousands of tons of CO2 removed
- [Touchless Workplace Solution Sheet](#) - Mobile app for occupancy control of temperature, lighting, and shading
- [Energy Management Solution Sheet](#) - Energy savings dashboard using the Enlighted IoT platform, wireless sensors, and web-based user interface to manage and view ongoing energy consumption and savings in real time

### Getting started

The tax credits available through the Inflation Reduction Act and Tax Code 179D present tremendous opportunities to create more sustainable and eco-friendly buildings.

To learn more about the advantages available for your organization:

- Engage with an Enlighted expert who can guide you through the process and explain the energy efficiency capabilities through occupancy-based lighting and HVAC control.
- Confer with your internal tax teams or external tax consultant/advisor to discuss current and future projects qualifications for the 179D tax credit.
- Act immediately, as tax credits are available for tax year 2023, with significant bottom-line implications.

*Siemens and Enlighted do not provide tax counsel or guidance. Any partner or potential partner should speak to their internal tax department or outside tax counsel, advisor when deciding if they qualify for clean energy tax incentives.*