

Commercial Lighting Tax Deduction

Introduction



According to the U.S. Department of Energy, lighting represents 40% of the average commercial building's electric bill, followed by motors/HVAC (40%) and other equipment (20%).

For years, energy-efficient lighting solutions have been available that can reduce lighting energy costs while maintaining or potentially improving lighting quality. According to the Energy Cost Savings Council, energy-efficient lighting projects generate an average 45% return on investment, paying for themselves in just 2.2 years. Due to energy codes and its economic advantages, energy-efficient lighting is now a common feature in new construction; lighting is generally considered the easiest, most profitable investment in energy-saving building systems.

According to the Department of Energy, however, only 20% of existing commercial buildings feature some degree of upgraded lighting technology, while 80% continue to operate lighting systems installed before 1986. The reason typically given is initial cost of changing out an older lighting system and replacing it with a newer one. Energy-efficient lighting typically costs more to purchase and necessitates skilled labor for its installation.

The Energy Efficient Commercial Buildings Tax Deduction was created to enhance the financial attractiveness of investment in the most energy-efficient lighting and other building technologies.

The Energy Efficient Commercial Buildings Tax Deduction

The Energy Efficient Commercial Buildings Tax Deduction (CBTD) is a special financial incentive created by the Energy Policy Act of 2005 and designed to reduce the initial cost of investing in energy-efficient lighting and other building systems via an accelerated tax deduction.

This special tax deduction allows building owners (or tenants) to write off the complete cost of upgrading a building's indoor lighting, HVAC/hot water and building envelope in the year the new equipment is placed in service, capped at \$1.80/sq.ft. Alternately, the owner (or tenant) could upgrade one of these three systems to earn the CBTD capped at \$0.60/sq.ft. In short, with the CBTD, the cost of new lighting or other building systems can be claimed in a single tax year instead of amortized over a period of years.



The CBTD expiration date has been extended twice, most recently by the Energy Independence Act of 2007 (EISA). With this extension, the CBTD can be claimed for qualifying projects completed before January 1, 2014.

Tax Deduction Versus Tax Credit

A tax deduction is a cost subtracted from adjusted gross income when calculating taxable income; tax liability is not reduced dollar for dollar, as is the case with a tax credit, but instead in proportion to the taxpayer's tax bracket.

Source: http://www.lightingtaxdeduction.org/tax_deduction.html

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