

EPAct Tax Deductions for Lighting Projects Grow More Popular



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EPAct Tax Deductions for Lighting Projects Gain Wider Use

By Charles Goulding, Jacob Goldman and Nicole DiMarino

In their third year, tax incentives available under EPAct — officially the Energy Policy Act of 2005 — are achieving wide use, particularly for energy-efficient lighting and lighting controls. LEED building projects are also increasingly taking advantage of EPAct tax incentives.

EPAct provides an immediate tax deduction of up to \$1.80 per square foot for building investments that achieve specified energy cost reductions beyond ASHRAE 90.1-2001 building energy code standards. A one-time \$1.80 per square foot deduction is the maximum tax deduction, but deductions of up to 60 cents per square foot are also available for three types of building systems: lighting, including lighting controls, HVAC, and the building envelope, which includes roof, walls, windows, doors and floor/foundation.

To obtain a tax deduction of 30 cents per square foot for lighting, the wattage must be reduced by 25 percent from ASHRAE 90.1-2001 levels. A maximum tax deduction of 60 cents per square foot requires a 40 percent reduction. To document the lighting electricity reduction and meet the EPAct requirements, the lighting project must have a spreadsheet to demonstrate that the project meets the EPAct watts-per-square-foot thresholds and meets seven other procedural requirements.

Under current law, EPAct tax incentives are available for projects placed in service after Dec. 31, 2005 and before Jan. 1, 2009. Multiple bills currently before Congress propose to extend EPAct for one or more years.

EPAct tax benefits for lighting have entered the mainstream because virtually all of the large lighting manufacturers and distributors are emphasizing the importance of the tax incentive with their sales proposals. The potential for an immediate EPAct tax deduction of 60 cents per square foot is a meaningful economic incentive for lighting projects, many of which range from 60 cents to \$2.00 per square foot in installed costs.

The lighting market is enjoying sustained strength. Rising electricity costs, more rigorous state and local building energy codes, and improved lighting products are resulting in compelling economic paybacks, many times less than two years. As a result, it is easier for facility executives to win funding for energy-efficient lighting investments. Lighting specifiers are increasingly comfortable with the EPAcT lighting requirements and know that they can meet them for most property categories. This confidence enables them to include EPAcT tax benefits right in the initial lighting proposal. In fact, a lighting proposal without an EPAcT tax benefit calculation is now unusual and hence somewhat suspect. **BOM**

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