

GUEST COLUMN



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Improve Your Energy Efficiency for 30 cents On the Dollar

How many of you want to reduce your energy bills but lack the money to spend on energy efficiency projects these days?

The Energy Policy Act of 2005 provides a federal tax deduction for investments in energy efficiency in commercial buildings. To qualify, a project must yield a 50% or greater reduction in energy consumption when compared to a similar space designed to meet Standard 90.1-2001. This standard is published jointly by the American Association of Heating, Refrigeration, and Air Conditioning Engineers (ASHRAE) and the Illuminating Engineering Society (IES).

Qualifying projects are separated into three categories:

- Interior lighting (including parking garages)
- Heating, cooling, ventilation or hot water systems
- Building envelope

If your project yields the required reduction in each category, you may qualify for a tax deduction equal to the entire project cost or \$1.80 per square foot of enclosed space, whichever is less. A partial deduction of up to \$0.60 per square foot is also possible for projects that fall into one of these three categories. Portions of a building can qualify, and the project must be completed prior to January 1, 2014.

The Georgia Clean Energy tax credit is similar to the federal program with several major differences. Georgia's program requirements are based on the 2004 version of Standard 90.1, which are more aggressive than the 2001 version. The Georgia program includes investments in renewable energy and energy efficiency. Some energy efficiency projects that qualify for the federal tax deduction do not qualify for the Georgia tax credit. Qualifying projects must be completed before January 1, 2013.

The budget for the Georgia Tax Credit is limited to \$2.5 million each calendar year, and is allocated to projects on a first come, first served basis. Your project must be completed before you apply for allocation of budget. Once allocated, the credit can be carried forward for up to five years. The credit is the least of three calculations. To illustrate, let's look at a simple example.

We will assume the potential project involves retrofitting lighting in a 20,000 square foot commercial space. The total project cost is \$10,000. This project qualifies for both the partial tax deduction under the federal program and the Georgia tax credit. First, calculate the federal tax deduction: $\$0.60 \times 20,000 = \$12,000$. Since the actual project cost is \$10,000, which is less than \$12,000, you can claim a deduction of \$10,000. Assuming that your company is at the marginal 35% tax bracket, the deduction reduces your tax liability by \$3,500.

Now let's look at the Georgia tax credit. The credit is limited to 35% of the project cost, which is \$3,500. For a lighting retrofit, you can claim \$0.60 per square foot of enclosed space, which equals \$12,000. The total dollar cap for a lighting retrofit project is \$100,000. The least of these three values is \$3,500. Since this is a tax credit, it reduces your tax liability dollar for dollar. Thus, after claiming the tax deduction and tax credit, your project cost would be \$3,000, a 70% reduction.

You might also be surprised to learn that new lighting and HVAC technologies can yield not only energy savings, but also a better environment for occupants. With completion of their lighting efficiency improvement projects, WellStar's Kennestone and Cobb Hospitals have managed to save \$415,000 in annual lighting energy and maintenance costs, while simultaneously providing light levels equal to or better than their previous equipment and configurations.

As with most government programs, the rules are complex, and paperwork is involved. Both programs require certification by a qualified individual who is not related to the taxpayer. Contact your lighting, HVAC, or renewable energy contractor for expert guidance.

Bill Shank is a member of the Illuminating Engineering Society (www.iesna.org), and the President of Lighting Technologies, Inc. (www.galightingtech.com). Lighting Technologies specializes in the design, installation and repair of commercial lighting. They have recently performed energy-saving lighting retrofits at Kennestone and Cobb hospitals and the Cobb Chamber of Commerce.