



Tax Incentives Assistance Project [www.energytaxincentives.org](http://www.energytaxincentives.org)

## Commercial Energy Efficiency Incentives

*Business owners are eligible for a variety of federal tax incentives for improving building energy efficiency, implementing combined heat and power (CHP) systems, purchasing hybrid gasoline-electric vehicles, and installing onsite renewable generation, fuel cells, and microturbines.*

### Commercial Buildings

[www.energytaxincentives.org/business/commercial\\_buildings.php](http://www.energytaxincentives.org/business/commercial_buildings.php)

Businesses can take a tax deduction for new or renovated buildings by reducing the energy costs associated with three components—lighting system; building envelope; and heating, cooling and water heating equipment. Buildings must meet the ASHRAE 90.1-2001 standard and be placed in service between January 1, 2006 and December 31, 2013 in order to be eligible. The deduction is available in two levels:

- Buildings that save 50% or more of projected annual energy costs across all three system components are eligible for a tax deduction of \$1.80 per square foot.
- Buildings that save a percentage of projected annual energy costs for one of the three components—building envelope (10% energy savings), lighting (20%), and heating & cooling (20%)—are eligible for a partial deduction of \$0.60 per square foot.



The organization that makes the expenditures is generally the recipient of the deduction, which can be taken in the year the building is placed in service. In the case of a public building, the designer may take the deduction. The building must be certified by a qualified individual (a licensed engineer or contractor) as meeting the energy cost savings goal.

### Combined Heat and Power (CHP)

[www.energytaxincentives.org/business/chp.php](http://www.energytaxincentives.org/business/chp.php)

Owners of CHP systems smaller than 50 MW may take advantage of a 10% investment tax credit for CHP property, applicable to only the first 15 MW of CHP property. Systems must be placed into service between October 3, 2008 and December 31, 2016. Only the original constructor or user of the CHP property may take the tax credit, in the year that the system becomes operational. To qualify, a CHP system must be 60% efficient (on a lower heating value basis), and produce at least 20% of its useful energy as electricity and at least another 20% as useful thermal energy. The efficiency requirement does not apply to CHP systems that use biomass for at least 90% of the system's energy source, but the credit will be reduced for less-efficient systems. The economic stimulus legislation also provides the option for businesses to take a grant from the U.S. Treasury Department during 2009 and 2010 in lieu of the investment tax credit. For more information on combined heat and power, see [www.aceee.org/chp](http://www.aceee.org/chp).

### Commercial Vehicles

[www.energytaxincentives.org/business/commercial\\_vehicles.php](http://www.energytaxincentives.org/business/commercial_vehicles.php)

Buyers of heavy-duty hybrid vehicles can receive tax credits based on the weight class of the vehicle, its fuel economy relative to a comparable conventional vehicle, and the incremental cost. The vehicle must also meet a threshold value of "maximum available power," a measure of the percentage of total vehicle power available from the rechargeable energy storage system of the vehicle. Credits are available for heavy-duty vehicles placed in service from January 1, 2006 through December 31, 2009.

The maximum credit available is: \$3,000 for a vehicle weighing 8,501 to 14,000 pounds; \$6,000 for a vehicle from 14,001 to 26,000 pounds; and \$12,000 for a vehicle over 26,000 pounds. See [www.aceee.org/transportation/hdhybtaxcred.htm](http://www.aceee.org/transportation/hdhybtaxcred.htm) for details. As of March 2009, nine manufacturers had certified tax credits for at least one truck or bus model; credits thus far range from \$3,000 to \$12,000. Businesses are also eligible for passenger vehicle incentives. See [www.energytaxincentives.org/consumers/vehicles.php](http://www.energytaxincentives.org/consumers/vehicles.php) for details.

### Onsite Renewables

[www.energytaxincentives.org/business/renewables.php](http://www.energytaxincentives.org/business/renewables.php)

Business owners can take advantage of several onsite renewable generation incentives. The incentives apply to solar and wind systems placed in service from January 1, 2006 until December 31, 2016 and to geothermal heat pump systems placed in service from October 3, 2008 until December 31, 2016. The incentives are worth 30% of

the installed cost of the system. The economic stimulus legislation also provides the option for businesses to take a grant from the U.S. Treasury Department during 2009 and 2010 in lieu of the investment tax credit.

### **Solar Systems**

Qualifying equipment will use solar energy to (1) generate electricity, or heat/cool or provide hot water to a structure, or (2) illuminate the inside of a building by means of fiber-optic distributed sunlight (tube systems and passive solar are not eligible). For more information visit [www.seia.org](http://www.seia.org).

- **Solar Water Heating:** Systems must be certified for performance by the Solar Rating Certification Corporation (SRCC) or a comparable entity endorsed by the state government in which the system is located. At least half of the energy used by the system to heat the water must be solar energy. Expenses for heating swimming pools or hot tubs are not eligible.
- **Photovoltaic (PV) Systems:** Systems must provide electricity for the residence, and must meet applicable fire and electrical code requirements.

### **Small Wind Systems**

Businesses that install wind turbines with not more than 100 kilowatts of nameplate capacity are eligible for the 30% investment tax credit. For more information see [www.awea.org](http://www.awea.org).

### **Geothermal Systems**

Qualified geothermal systems are ground source heat pumps with related equipment used to produce, distribute, or use energy derived from a geothermal source. Commercial customers can either get an investment tax credit of 10% of the installed cost, available through 2016. The ARRA legislation also provides the option of taking a grant in lieu of the credit, worth 10% of the installed costs for equipment placed in service during 2009 and 2010. For systems where electricity is produced by geothermal power, equipment qualifies for an incentive only up to, but not including, the electric transmission stage.

### **Fuel Cells and Microturbines**

[www.energytaxincentives.org/business/fuel\\_cells.php](http://www.energytaxincentives.org/business/fuel_cells.php)

The investment tax credits for these two systems are available for systems "placed in service" through December 31, 2016. Fuel cells generate electricity through a chemical process. They are somewhat similar to batteries, except they must be continuously fed with fuel. Microturbines are small power generation systems using a gas turbine engine.

- **Fuel Cells:** Credits are for 30% of the cost, up to \$3,000 per kW of power that can be produced. To qualify, systems must have an efficiency of at least 30% and must have a capacity of at least 0.5 kW.
- **Microturbines:** Credits are for 10% of the cost, up to \$200 per kW of power that can be produced. To qualify, systems must have an efficiency of at least 26% and must have a capacity of 2,000 kW or less.



This is a basic overview of the federal-level commercial tax incentives. For more information on equipment specifications, pertinent IRS forms, and additional eligibility details, visit the TIAP Web site at [www.energytaxincentives.org](http://www.energytaxincentives.org).

*Please note that although TIAP has made every effort to describe these tax incentives accurately, many details of eligibility will be decided by the Internal Revenue Service, and so this information is provided as a guideline only. TIAP does not provide tax advice and suggests that individuals contact a tax professional with any questions specific to your situation.*

The Tax Incentives Awareness Project (TIAP), sponsored by a coalition of public interest nonprofit groups, government agencies, and other organizations in the energy efficiency field, is designed to give consumers and businesses information they need to make use of the federal income tax incentives for energy-efficient products and technologies passed by Congress as part of the Energy Policy Act of 2005 and subsequently amended by later legislation.