



The 179D Deduction: A Contemporary Review and Outlook

The 179D deduction (also known as the Energy Efficient Commercial Buildings Deduction or “EECBD”) is a widely utilized tax incentive in the United States that promotes energy efficiency in commercial buildings. Originally introduced as part of the Energy Policy Act of 2005, it allows building owners and lessees to claim a tax deduction for making energy-efficient improvements to their properties.¹ With recent legislation and the growing emphasis on sustainability, the EECBD deduction is set to play an even more significant role in current and future energy-efficient initiatives.

Current Provisions and Legislative Updates

As of 2023, the 179D deduction has specific criteria for the total amount that can be deducted. The deduction for Energy Efficient Commercial Building Property (“EECBP”) equals the lesser of the cost of the installed property or the savings per square foot.² According to IRS guidelines, the deduction is calculated as follows:

- \$0.50 per square foot for a building with 25% energy savings
- Plus, an additional \$0.02 per square foot for each percentage point of energy savings above 25%, up to a maximum of \$1.00 per square foot for a building with 50% energy savings³

The IRS reduces the maximum deduction for energy-efficient upgrades if similar deductions were claimed in the last three years.

This adjustment ensures cumulative deductions stay within limits.⁴

Previously, the 179D deduction allowed building owners and lessees to claim up to \$1.88 per square foot for improvements that achieved a 50% reduction in energy and power costs compared to a reference building meeting ASHRAE standards.⁵

Recent Legislative Changes

In 2021, the Consolidated Appropriations Act made the 179D deduction a permanent part of the tax code, which ensured the continuation of energy-efficient building projects.⁶

The Inflation Reduction Act of 2022 introduced an increase to the maximum deduction and provided additional incentives for buildings that exceed 50% energy savings.

The Inflation Reduction Act of 2022 introduced an increase to the maximum deduction and provided additional incentives for buildings that exceed 50% energy savings. For example: building owners may qualify for a bonus deduction by paying prevailing wages and fulfilling apprenticeship requirements on such projects. This bonus starts at \$2.50 per square foot when energy savings reach the 25% threshold and increases by \$0.10 per square foot for each additional percentage, capping at a maximum of \$5.00 per square foot.⁷

Future Applications and Impact

— Public Sector and Government Buildings

Government and public sector buildings can continue to leverage the 179D deduction to improve energy efficiency. Given that these buildings are not subject to income tax, the deduction can be allocated to the primary designers, incentivizing sustainable design practices in public projects.

Though it remains to be seen what the new administration's impact will be on the Biden administration's goal to achieve net-zero emissions by 2050, future government initiatives will likely incorporate the 179D deduction as a key component, which will drive the renovation and construction of energy-efficient public buildings, contributing to the national sustainability target.

— Real Estate Investment and Development

The commercial real estate sector is increasingly realizing the value of energy efficiency when it comes to increasing property value and reducing operational costs. The 179D deduction plays, and will continue to play, a crucial role in the following areas:

1. **Retrofit Projects:** Retrofitting existing buildings with energy-efficient technology is a cost-effective way to reduce energy consumption and emissions. The 179D deduction provides significant tax savings for these projects, encouraging more property owners to undertake energy retrofits.⁸
2. **New Construction:** For new construction projects, integrating energy-efficient designs can lead to substantial long-term savings. The 179D deduction offers incentives to developers to prioritize energy efficiency and innovation, making sustainable building practices more economically feasible.⁹

— Retail and Hospitality Sectors

The retail and hospitality sectors should benefit greatly from the 179D deduction in the coming years. With growing consumer demand for sustainable practices, businesses in these sectors will likely invest heavily in energy-saving technologies. The deduction would offset the cost of the investments while helping them meet sustainability goals.

The 179D deduction can be a vital tool for promoting energy efficiency in the commercial real estate sector. By offering substantial tax incentives, it encourages investments in energy-efficient technologies, contributing to reduced energy consumption, lower greenhouse gas emissions, and arguably, increased property values over the long-term. As governments around the world aim towards sustainability, the 179D deduction is poised to play a more critical role in achieving these goals in the United States, while offering tax benefits that were otherwise underutilized.

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Endnotes

¹ “IRC 179D energy efficient commercial building deduction,” Internal Revenue Service (n.d.), https://www.irs.gov/pub/fatca/int_practice_units/irc-179d-energy-efficient.pdf.

² “Energy Efficient Commercial Buildings Deduction,” Internal Revenue Service (November 1, 2024), <https://www.irs.gov/credits-deductions/energy-efficient-commercial-buildings-deduction>.

³ Id.

⁴ Id.

⁵ “IRC 179D energy efficient commercial building deduction,” Internal Revenue Service (n.d.), https://www.irs.gov/pub/fatca/int_practice_units/irc-179d-energy-efficient.pdf.

⁶ Id.

⁷ “H.R.5376 - 117th Congress (2021-2022): Inflation reduction act of 2022,” Congress.gov (n.d.), <https://www.congress.gov/bill/117th-congress/house-bill/5376/text>.

⁸ Id.

⁹ Id.