

Green Incentives

Rewarding the Environment—and Your Bottom Line

the federal tax incentives for going green have grown steadily over the past five years, yet many businesses fail to pursue them, leaving many tax credits and deductions on the table. The Emergency Economic Stabilization Act of 2008 and the American Recovery and Reinvestment Tax Act of 2009 introduced and renewed numerous energy tax breaks that aim to stimulate the economy and promote environmentally sound solutions.

Section 179D: Commercial Deduction

Energy efficient improvements often are more cost effective than renewable energy improvements, while still providing a tax break. The Energy Efficient Commercial Buildings Deduction allows for an immediate depreciation deduction of 30 cents up to \$1.80 per square foot for improvements to “commercial buildings” that reduce energy use for a building’s envelope, interior lighting systems, and heating, ventilation and air conditioning. The design of doors, windows, roofs, insulation, HVAC equipment and interior lighting systems can cut energy use and also determine the amount of deductions available. Residential rental buildings (four stories or taller) may also be eligible.

This deduction is especially relevant in California because the state’s Title 24 energy code is relatively stringent and already aligns many properties with the criteria to qualify for a deduction.

Qualifying for the full deduction of \$1.80 per square foot requires a very high standard of energy efficient design. Leadership in Energy and Environmental Design certified buildings, Energy Star buildings or participation in California’s Savings by Design utility rebate program are great candidates for the full deduction.

This tax deduction requires a detailed energy analysis that must be certified by a licensed professional engineer or contractor. Improvements qualifying for this tax deduction must be placed in service by Dec. 31, 2013.



Tax incentives help ease the investment of going green—and accelerate your ROI.

Section 45L: Homebuilder Credit

The New Energy Efficient Home Credit allows for a tax credit of \$1,000 or \$2,000 per dwelling unit that meets certain energy efficiency criteria. The \$2,000 tax credit applies to developers of apartment units and new homes; the \$1,000 tax credit applies to manufactured homes. Note that eligible dwelling units must be within a building that is three stories or less, making it impossible to take advantage of both this tax credit and the Energy Efficient Commercial Building Deduction for any particular unit.

Section 48: Energy Credits


This provides a 30 percent tax credit for solar energy property, certain fuel cell power plants and small wind energy property. Additionally, it provides a 10 percent tax credit for certain geothermal equipment and heat pumps, certain microturbine power plants, and certain combined heat and power or cogeneration systems. Most small and midsize businesses that pursue this credit are those that install solar or geothermal equipment. To be eligible for the tax credit, the property or equipment must be in service by Dec. 31, 2016.

Additionally, Energy Credit property has a shorter tax recovery period of five years, making it potentially eligible for a 50 percent bonus depreciation deduction in the first year.

Furthermore, those who are constructing buildings that incorporate these technologies can use cost segregation to accelerate depreciation and create a higher allocation toward qualified energy property, maximizing the potential tax credits here.

Section 25C: Home Energy Efficiency Improvement Tax Credits

Consumers that purchase and install specific products to their primary residence—such as energy-efficient windows, insulation, doors, roofs, and heating and cooling equipment—can receive a tax credit for 30 percent of the cost up to an aggregate of \$1,500 for improvements placed in service Jan. 1, 2009–Dec. 31, 2010.

Tax incentives help ease the investment of going green and accelerate the return on investment that comes from a reduction in energy use. Add in other financial incentives that exist at the federal, state and local levels, and the business decision just gets easier. 

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