

Energy Policy Act of 2005 - Section 1331 Tax Deductions

To encourage greater energy conservation, the Federal Government passed H.R. 6, the Energy Policy Act of 2005. Section 1331 of the Act establishes energy efficient commercial building tax deductions for expenditures related to 1) the interior lighting systems, (2) HVAC and hot water systems, and (3) the building envelope.

These deductions are generally provided to the person or organization making the expenditures for construction, usually the building's owner or, for some HVAC or lighting efficiency projects, a building tenant. In the case of public entities such as public schools, hospitals or government-owned buildings, the deduction can be allocated to the person primarily responsible for designing the property.

The deductions can only be applied for if the commercial building property is placed into service between January 2, 2006 and December 31, 2007. Related expenditures must be certified to have produced annual energy and power cost reductions that exceed specific minimum energy efficiency requirements set forth in the ASHRAE/IES 90.1-2001 Energy Standards (as in effect on April 2, 2003).

TAX DEDUCTIONS AVAILABLE THROUGH SECTION 1331 ARE AS FOLLOWS:

1. Surpassing the ASHRAE/IES 90.1-2001 annual energy and power consumption requirements for the complete commercial building by 50% results in a tax deduction for the year the building is placed into service – generally meaning the time when the property is ready for its intended use - equal to the cost of equipment and labor to achieve those energy savings, subject to a cap of \$1.80/square foot.
2. Alternatively, shy of meeting an overall building energy reduction of 50%, the bill offers a sliding scale of partial tax deductions for energy savings beyond ASHRAE/IES 90.1-2001 requirements in each of the three areas mentioned above. But, the maximum deduction allowed for each area is limited to an amount equal to the cost of equipment and labor to achieve those energy savings, subject to a cap of \$0.60/square foot. Of the three areas, only an interim system-specific goal for lighting is provided directly in the legislation and is valid until or unless the IRS issues a different final regulation. It states that a deduction of \$0.30 per square foot can be taken if the lighting system employs dual switching (ability to switch approximately one half of the lights OFF and still maintain a fairly uniform light distribution) and reduces installed lighting power consumption by at least 25% from values stated in specifically cited tables in ASHRAE Standard 90.1-2001. As power savings increase from 25% to 40%, the deduction increases proportionally up to \$0.60 for a 40% power savings as indicated in the following table:

Application Note

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LIGHTING ENERGY SAVINGS AND ELIGIBLE TAX DEDUCTIONS PER SQUARE FOOT

% Reduction Below ASHRAE 90.1-2001	<20%	25%	26%	27%	28%	29%	30%	31%	32%
Amount of Eligible Tax Deduction/sq. ft.	\$0.00	\$0.30	\$0.32	\$0.34	\$0.36	\$0.38	\$0.40	\$0.42	\$0.44

% Reduction Below ASHRAE 90.1-2001	<33%	34%	35%	36%	37%	38%	39%	40%	>40%
Amount of Eligible Tax Deduction/sq. ft.	\$0.46	\$0.48	\$0.50	\$0.52	\$0.54	\$0.56	\$0.58	\$0.60	\$0.60

SUGGESTED LEVITON LIGHTING CONTROLS FOR ASHRAE/IES 90.1-2001 STANDARDS COMPLIANCE

Mandatory Provision 1

- Automatic shutoff of interior lighting is required in buildings of more than 5000 sq. ft.

Leviton Product Solutions:

- Wall Switch and Ceiling Mount Occupancy Sensors
- EZ-MAX Relay for up to 4 lighting circuits
- Z-MAX Relay for 4 or more lighting circuits
- Dimensions™ D-3200 & D4200 Architectural Lighting Control Systems
- MiniZ, EZ-MAX, or Z-MAX Relays Panels

Mandatory Provision 2

- In buildings of less than 10,000 sq. ft., the maximum space to be managed by an individual lighting control can't exceed 2500 sq. ft. For buildings of more than 10,000 sq. ft., the maximum space managed an individual lighting control can't exceed 10,000 sq. ft.
- Override of automatic shutoff can't exceed 4 hours
- Occupancy sensors or manual switching/dimming controls are required for all rooms created with partitions

Leviton Product Solutions:

- Wall Switch and Ceiling Mount Occupancy Sensors
- Centura Fluorescent Energy Management System, Mini-Z, EZ-MAX and Z-MAX Relay Panels
- Decora Timer Switches

Mandatory Provision 3

- Exterior lighting needs automatic shutoff

Leviton Product Solutions

- EZ-MAX, or Z-MAX Relay Panels as time-clock or with a Photocell

Leviton Mfg. Co., Inc.

20497 SW Teton Ave., Tualatin, Oregon 97062 • Phone: (503)404-5500 • Fax: (503)404-5600
 Tech Line (8:00AM – 5:00PM Pacific Time Monday-Friday): 1-800-864-2502

Visit our Website at: www.leviton.com

