



Special Tax Benefits for Qualified Improvement Property

The CARES Act clarified a drafting error in the Tax Cuts and Jobs Act of 2017 and now allows the cost of Qualified Improvement Property (including HVAC and lighting retrofits) to be expensed 100%. The change is retroactive to 2018 – 2019.



As a result, the after-tax benefit of most energy efficiency retrofits has changed dramatically.

Qualifying Improvement Property (to interior of the building) is now eligible for bonus depreciation allowing total installed costs to be expensed at 100%. Examples include mechanical and electrical equipment, fire protection/security systems, plumbing, drywall, ceilings, and doors. Exclusions are: structural framework, enlargements to the building, elevators, escalators, and rooftops (including RTU's).

Example: assume a corporation (21% tax bracket) is replacing a chiller at a total installed cost of \$300,000. The true after-tax cost of the new chiller installation is \$237,000 ($300,000 \times .21 = 63,000$ tax expense).

After-tax project economics improves dramatically when the chiller replacement is expensed 100%.

Without Tax Benefits	With Tax Benefits
Project Cost: \$300,000	Project Cost: \$237,000
Annual Savings: \$43,000	Annual Savings: \$43,000
Payback = 7 years	Payback = 5.5 years
\$300,000/\$43,000	\$237,000/\$43,000

Simple payback is reduced from 7 to 5.5 years!

Assuming annual energy savings and avoided repairs total \$43,000, this example shows how simple payback is reduced from 7 to 5.5

The example is for a corporation, however, owners of flow-through tax entities such as LLC's and LP's can benefit depending on their tax position. Also, as opposed to using bonus depreciation, owners may opt for Section 179 (TCJA of 9/17/2017) to expense certain retrofits (such as RTU's), up to \$1 million.

Please note EnFlux Building Solutions does not provide tax advice and your customer should rely on the opinion of tax counsel.

Questions? Contact us at info@enfluxbuildingsolutions.com. Or, call 713.714.0575.