

HOW TO FUND A LIGHTING UPGRADE



1. ACCELERATED DEPRECIATION:

Removal of obsolete and/or in-efficient lighting systems and installation of new capitalized energy efficient lighting equipment. First year investment recovery is approximately 40-110%.

2. REBATE:

A cash transaction paid to the utility customer for installing energy efficient lighting equipment. First year investment recovery is approximately 10-20%. Includes both prescriptive and custom rebates.

3. OPERATING SAVINGS:

A repeatable bottom line cash flow improvement which reduces the unnecessary burden on profits. First year investment recovery is approximately 20-50%. Reducing power and energy costs allows for the reduction in demand for power and on-going maintenance costs.



Update your building to LED Lighting and take advantage of four tax deductions for product and labor costs:

1. EPACT (ENERGY POLICY ACT OF 2005)

Interior Lighting Only: All past qualified EPAct deductions can still be taken in the current year. EPAct is a qualified tax deduction when a capitalized investment in Lighting, HVAC and/or Building Envelope meet the ASHRAE (American Society of Heating, Refrigerating, and Air-Conditioning Engineers) for building energy efficiency. This is a one-time allowable tax deduction that can range between \$0.30 and \$1.80 per square foot. Lighting alone can qualify for a tax deduction ranging from \$0.30 to \$0.60.

EPAct (179D) applies to any capital investment in Lighting, HVAC and or Building Envelope. It expired on December 31, 2020; however, it was made a permanent tax deduction that can be carried forward 20 years. If a qualified 179D tax deduction occurred after January 1, 2006 and was missed, it can be captured in the current year without amending taxes.



2. ABANDONMENT (DISPOSITION)

Interior Lighting: Write off the remaining depreciation of the obsolete lighting being removed. Most interior lighting is classified as a 39-year depreciation recovery asset and in most cases the lighting being removed is not fully depreciated. Therefore, the IRS allows the owner of the lighting (building owner or tenant) to write-off the remaining depreciation when they retire or abandon the lighting. This is called disposition.

Exterior Lighting: The same rules apply to exterior lighting, however, until a few years ago exterior lighting was classified as a 15-year asset and is now classified as a 5-year asset. Most exterior lighting is trapped in the 39-year recovery because when a building is acquired there usually is not enough detail to segregate the exact depreciable value of the exterior lighting.



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3. BONUS DEPRECIATION & QIP (QUALIFIED IMPROVEMENT PROPERTY)

Bonus depreciation was set at 100% under the TCJA effective 2017 and applied to all building assets classified as a 20 year or less depreciable asset. There is a provision that allows the reclassification of 39-year assets to 15 year if that asset meets the QIP requirements. In almost every case LED Lighting will meet QIP and therefore be allowed to be reclassified as a 15-year building asset and qualify for 100% bonus.

4. ACCELERATED DEPRECIATION

The government allows real property building assets to be depreciated over 39, 15, 7 or 5 years. Most building owners have some level of cost segregation and are using all four depreciation schedules, however, in many cases the building owner has not identified all the short recovery assets and therefore many are trapped in 39 year. When an on-site engineered based study is conducted it is very common to find between 10% and 30% of the 39-year assets could be and should be moved to a shorter recovery depreciation and a one-year catch-up deduction is allowed if there is enough detail to support a reclassification of assets.

Proof of QIP

Based on building asset improvements and the IRS accepted process and documentation. Submittal of the QIP letter provides technical support to quantify and clarify the building improvement through qualified electrical engineer and certified CPA who sign letter for legal and technical proof. This allows for 100% of material and labor write off under the "bonus" tax deduction. TaxCentric Strategic Tax Reduction Services are Tax Deductible.

Please contact Frank at TaxCentric to start your deduction process today!

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