



LOS ANGELES

## **Found Money – Cost Segregation and 179D: Tax Savings Strategies for Energy Efficiency Upgrades**

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Success is Planned and Outcomes are Realized.



# The IRS allowed strategy: Your choice

- Cost Segregation for cash flow alternative
- Tangible Property Regulations: Allowed write down of disposed assets

The affect: Opportunity Capital for energy savings you may already have!

## Why are we involved: The Economics....

- No Cost Opportunity Capital for Funding Energy Investment
  - **We provide the analysis.**
  - **It is in the walls of your building!**

## Example: Energy Savings Project Office Building 109,000 sq ft

- Comprehensive Lighting
- Chilled Water System Controls Upgrade
- Air Systems Control Upgrade
- Window Film
- Cost \$360k      Savings \$175k/year
- Payback Period: 2 years

## Example: Effects of Cost Segregation

- Capital Cost of Energy Upgrades      \$360k
  - Cash Flow of Cost Segregation      \$582k
- Cash Flow funds the project!!

# Property Review Summary



## Office Building

Building Cost \$ 16,499,100

Date Acquired June 2007

**Tax Year: 2012**

### Current Method

Accumulated Depreciation Reported  
39 year straight line method \$ 2,344,687

### Alternative Method

Cost Segregation Study Accumulated Depreciation

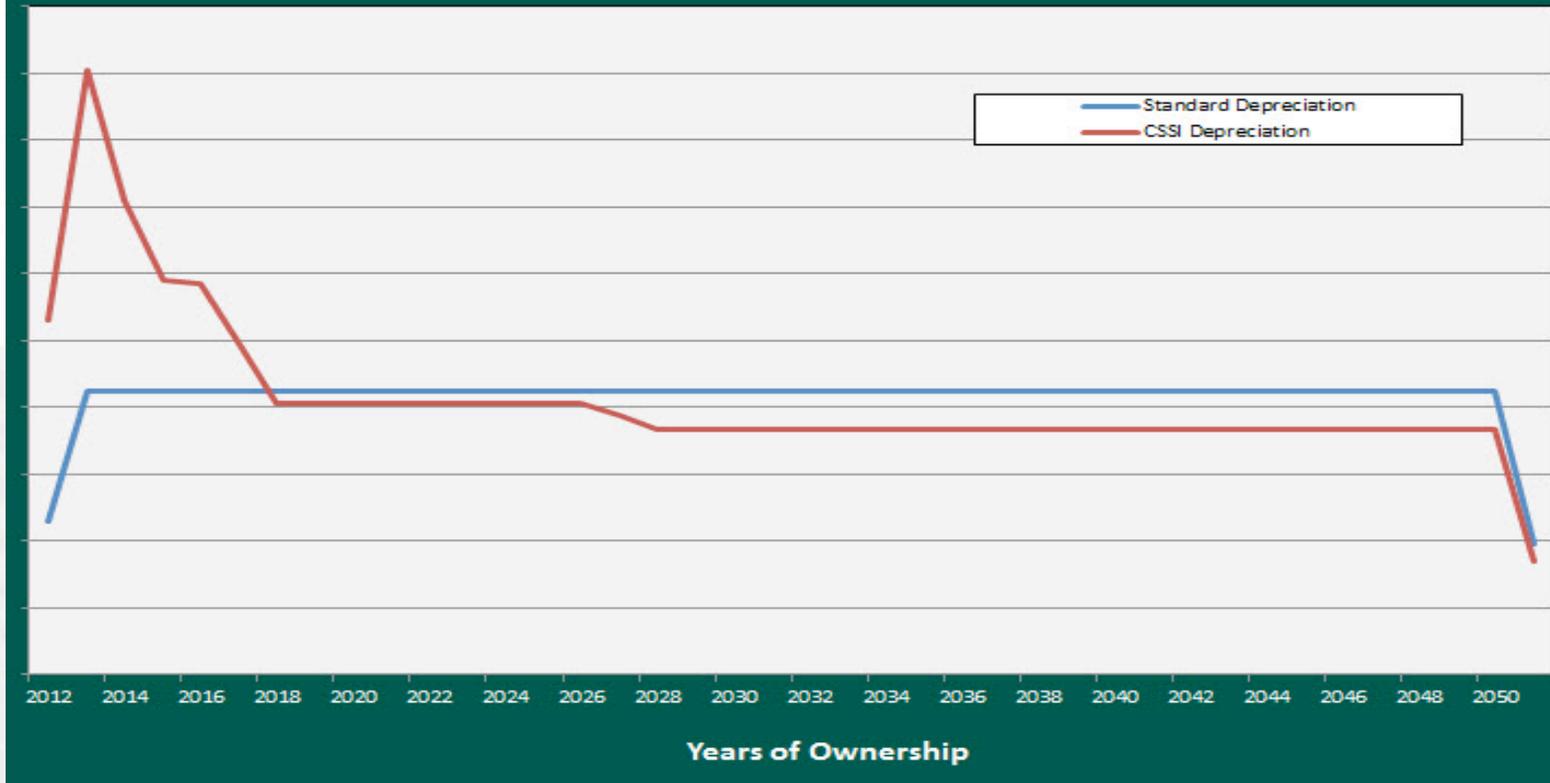
|         |              |
|---------|--------------|
| 5 Year  | \$ 1,484,919 |
| 7 Year  | \$ -         |
| 15 Year | \$ 289,751   |
| 39 Year | \$ 2,039,878 |
| Total   | \$ 3,814,547 |

**Results for Tax Year: 2013**

|  |              |
|--|--------------|
| Increased Accumulated Depreciation Expense | \$ 1,469,860 |
| Tax Rate (Estimated)                       | 39.6%        |

Estimated Accumulated Tax Savings Benefit \$ 582,065

### Depreciation Comparison



# Examples



# Cash Flow may be in your building

- Benchmark: \$30,000 to \$50,000 per \$1million in building cost

Source of capital in Energy Saving Upgrade!

# Tangible Property Regs

- If taken out of service, replaced, abandoned
- Tax Savings “Write Down” in the same year as the Upgrade, or
- Tax Years 2012 and 2013 catch up opportunity

What does this mean economically!!

## Example: Tangible Property Regulations

- The Example:
  - Write Down Tax Savings: \$78,000
  - Cost of Project : \$360,000
  - Net Cost of Project: \$282,000
  - Project Savings: \$175,000
  - Payout Period: 1.6 years vs 2.0....20% faster



Thank You  
No cost review to qualify the application for you.

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# ***ENERGY EFFICIENCY INCENTIVE OPPORTUNITIES FOR BUILDING OWNERS***

To enhance the position of implementation of energy efficient technology, decision makers need to understand not only the standards and codes, but also the incentives available to lower the often prohibitive costs for energy efficient improvements.

Market barriers for exceeding ASHRAE standards with cost-effective technologies can be complimented through the use of financial incentives available.

# PRIMARY INCENTIVES FOR SIMPLE PAY BACK



**Rebates:  
Prescriptive  
Custom**

**§179D Tax  
Deduction**

# ***WHERE DO INCENTIVES FIT?***

## **TYPES OF INCENTIVES:**

- 1. Utility Rebates: Prescriptive & Custom**
- 2. State/Local incentives**
- 3. Grants?**
- 4. Federal Tax Deductions**

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## ***3 PRIMARY ENERGY EFFICIENCY CONSIDERATIONS FOR THE PROPERTY OWNER?***



- Reduced operating expense
- Enhanced property to attract tenants
- Reduced maintenance on property

# ***FEDERAL EFFICIENCY TAX DEDUCTIONS***

....create first cost offsets

**§179D – TAX DEDUCTIONS**

**vs. §179**

# ***FEDERAL EFFICIENCY TAX DEDUCTIONS***

## **§179D – TAX DEDUCTIONS**

**QUALIFIES: (property owners)**

1. FOR PROFIT-ENTITIES
2. THOSE WITH A TAX APPETITE

**SPECIFICALLY EXCLUDED OR EXCLUDED DUE TO  
TYPE OF ENTITY:**

1. 501(C)(WHATEVERS)
2. SOVEREIGN NATIONS
3. REIT'S
4. ESOP'S

# §179D – FEDERAL TAX DEDUCTIONS

## §179D Overview – Federal Deductions for Specific Efficiencies

- Extended through 12/31/13
- Benefits available from 1/1/06 thru 12/31/13
- Incentivized areas:
  - Lighting
  - HVAC
  - Building Envelope
  - Whole Building (all three subsystems)
- Available for New Construction and Existing Buildings
- Also available for:
  - Tenant owned lease-hold improvements
  - Primary Designers of Government Buildings

# §179D TAX DEDUCTION BENEFITS

Tax deductions to private sector clients\*: Back to 1.1.2006

\$ .60/sq.ft. - HVAC

\$ .60/sq.ft. – LIGHTING (up to)

\$ .60/sq.ft.– ENVELOPE

\$1.80/sq.ft – WHOLE BUILDING

Tax deductions to “primary designer” of public sector projects\*: “open” years

\$ .60/sq.ft. - HVAC

\$ .60/sq.ft. – LIGHTING (up to)

\$ .60/sq.ft.– ENVELOPE

\$1.80/sq.ft – WHOLE BUILDING

# **CERTIFICATION FROM 1.1.2006**

## **HOW DOES THIS WORK?**

**Private sector only**

**Form 3115**

**Amend tax returns?**

**Check from the IRS/Treasury**

# CERTIFICATION FOR §179D



Third – party certification

Party “not-related” to taxpayer

Approved software (by IRS) required

Deduction may be taken for projects from 1.1.06 through 12.31.13  
(EXCEPTION: Primary Designers)

## HOW TO INTRODUCE THIS OPPORTUNITY??

### One Question:

“Are you interested in exploring all incentives including any tax opportunities?”

## CASE STUDY/EXAMPLE

OFFICE BUILDING - 109,000 ft<sup>2</sup>

HVAC (VFD additions) @ \$.60/ft<sup>2</sup> = \$ 65,400.00

Lighting retrofit @ \$.60/ft<sup>2</sup> = \$ 65,400.00

= \$130,800.00

§179D DEDUCTION = \$130,800.00

# MYTHS RE: §179D & DIFFICULTIES

1. Anyone can provide the “Certification”
2. Must make “Whole Building” or there are no benefits
3. Too difficult to achieve
4. CPA or tax advisor **MUST** be informed and able to file the appropriate form

# ***THANK YOU!***

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# Interested in becoming a partner or sponsor?



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