

2013: Critical Year for Large Texas Roof Incentives

By Charles R. Goulding, Gary Savell, and Raymond Kumar

Analysts at Energy Tax Savers take a look at the potential for Texas property owners to claim EAct tax deductions, given the recent news coming out of Texas regarding the need for more electric energy generation.

2013 is critical year for obtaining large Texas Roof Incentives at the \$1.80 per square foot level. The issuance of the Brattle report, removal of the Texas utility cap rate, projected large increases in electricity rates, plunging Solar Photovoltaic (Solar P.V.) prices, large solar tax incentives and recent IRS announcements makes 2013 the key year for Texas roof replacements and upgrades. This article explains how the convergence of all these factors makes 2013 a onetime-only critical year for Texas roof replacements. It is particularly important for Texas property owners who need a roof replacement or are planning for solar to understand the roof tax incentive opportunity.

Code Section 179D EAct Tax Opportunities

Pursuant to Energy Policy Act (EAct) Code Sec. 179D, as enacted by EAct, commercial property owners or primary designers in government projects making qualifying energy-reducing investments in their new or existing locations can obtain immediate tax

deductions of up to \$1.80 per square foot.

If the building project does not qualify for the maximum \$1.80-per-square-foot immediate tax deduction, there are tax deductions of up to \$0.60 per square foot for each of the three major building subsystems: lighting, HVAC (heating, ventilating, and air conditioning) and the building envelope. The building envelope is every item on the building's exterior perimeter that touches the outside world including roof, walls, insulation, doors, windows and foundation.

Understanding the EAct Tax Incentive Math

Texas roof replacements can be eligible for up to \$1.80 per square foot in EAct Tax Incentives. The following table illustrates the magnitude of tax incentives available at different square footage breakpoints.

Texas Roof EPC Tax Deductions

Square Footage	Maximum EPC Tax Deduction Available
50,000	\$ 90,000
100,000	\$ 180,000
200,000	\$ 360,000
300,000	\$ 540,000
400,000	\$ 720,000
500,000	\$ 900,000
600,000	\$ 1,080,000
700,000	\$ 1,260,000
800,000	\$ 1,440,000
900,000	\$ 1,620,000
1,000,000	\$ 1,800,000

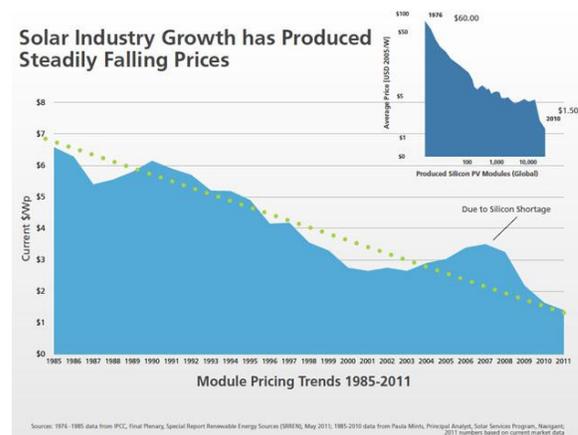
The Brattle Report

The Brattle Group, who are considered consultants and experts in economics, finance, and regulation to corporations, law firms, and governments around the world, issued a June 2012 report entitled “ERCOT Investment Incentives and Resource Adequacy.” According to the report, Texas requires utility infrastructure investment, as their current power system cannot meet all of the future demand for power.¹ Unless Texas raised its price ceiling for electric rate charges, justifying additional utility plant capacity, the Brattle Group report said that Texas residents may experience power blackouts during peak times. The report suggests the price ceiling be changed to \$9,000 per megawatt hour compared to its current \$3,000 per megawatt hour. Currently, the \$3,000 per megawatt hour price ceiling is the largest price ceiling in the United States.

As of late June 2012, the Public Utility Commission of Texas acted. As a result of the Brattle Report, they voted to increase the price ceiling to \$4,500 per megawatt hour, still short of the recommended \$9,000 per megawatt hour. Nonetheless, this is a step in the right direction for without this change, Texas was headed for a dark future.

Plunging Solar P.V. Prices

The Brattle Report makes references to wind energy in Texas several times throughout the report. However, in its 135-page comprehensive analysis, Brattle Group notably does not refer to solar energy. Despite the tremendous opportunities from a huge base of large roofed buildings and being a largely sun intensive state, Texas lags the nation in solar installations and is tenth in the country by state installations. For example, California and New Jersey both make substantial use of Solar P.V. See the graph below which shows the historical prices of Solar P.V.:



Solar Tax Incentives

See the table below for a sampling of the solar tax credit available:

New Tax Law- Effective 9/9/2010

Solar - 30% Tax Credit

	\$ 1 Million Project	\$ 500,000 Project	\$ 200,000 Project
Project Cost	\$ 1,000,000	\$ 500,000	\$ 200,000
Remaining Basis after tax credit*	\$ 850,000	\$ 425,000	\$ 170,000
MACRS 1st Year Depreciation	\$ 170,000	\$ 85,000	\$ 34,000
Value of Depreciation X 35% Federal Tax Rate	\$ 59,500	\$ 29,750	\$ 11,900
30% Tax Credit	\$ 300,000	\$ 150,000	\$ 60,000
Total of First Year Tax Benefit	\$ 359,500	\$ 179,750	\$ 71,900

* Includes 50% of tax credit add-on

Planning for the EAct Roof Tax Opportunity

Right now is a perfect time for Texas property owners to plan for Solar P.V. investment, as EAct can help economically justify a roof improvement, since retrofitting a roof is oftentimes required for solar panels to be installed. Even if EAct is extended past December 31, 2013, it will be much more difficult to achieve the \$1.80 roof incentive under current legislative proposals.

IRS Makes Roof Tax Deductions Easier

The IRS, in Revenue Procedure 2011-14, announced that missed EAct Tax Deductions can be made up retroactive to January 1, 2006 without needing to file an amended return, which can be costly for many businesses.² Instead,

using IRS Form 3115, entitled "Change of Accounting Method," those who missed EAct qualifying retrofits and new construction can claim their full deduction as if they included the incentive on an original tax return for the project year.

Non Conditioned Buildings

For non conditioned or non air conditioned manufacturing/industrial buildings and warehouses typically found north of Houston, the formula for triggering the \$1.80 requires very energy efficient lighting at prescribed wattage levels. See our other warehouse and manufacturing articles for a more detailed analysis.³

Conditioned Buildings

For conditioned or air conditioned buildings the key to triggering the \$1.80 is very energy efficient air conditioning.⁴ Due to the extreme heat many Texas buildings have very energy efficient HVAC which makes achieving the roof tax deduction easier.

Roof Warranty

In preparation for solar most roofs need replacement or upgrading. In fact to maintain economically important roof warranties most roof material manufacturers require a prescribed roof upgrade to enable continued warranty coverage.

Conclusion

Texas property owners particularly those with large roofs should give strong consideration to obtaining large EAct roof tax deductions in 2013. We believe this is a one time opportunity.

Charles R. Goulding, Attorney/CPA is the President of Energy Tax Savers Inc., The EAct 179D Experts, an interdisciplinary tax and engineering firm that specializes in the energy-efficient aspects of buildings.

Gary Savell is a Tax Analyst with Energy Tax Savers, Inc., The EAct 179D Experts.

Raymond Kumar is a CPA and Tax Analyst with Energy Tax Savers, Inc., The EAct 179D Experts.

Contact the experts at Energy Tax Savers today at www.energytaxsavers.com or by email at info@energytaxsavers.com.

End notes

¹ Samuel Newell et al. "ERCOT Investment Incentives and Resource Adequacy." *The Brattle Group*. (June 2012): Web. For the full report, see <http://www.ercot.com/content/news/presentations/2012/Brattle%20ERCOT%20Resource%20Adequacy%20Review%20-%202012-06-01.pdf>

² See <http://www.irs.gov/pub/irs-drop/rp-11-14.pdf> for IRS Revenue Procedure 2011-14.

³ Complete Warehouse Tax-Enhanced Energy-Efficient Design (CCH Publishing): <http://www.energytaxsavers.com/articles/Complete-Warehouse-Tax-Enhanced-Energy-Efficient-Design.pdf>

Manufacturing Facilities Drive Large EAct Tax Deductions (CCH Publishing): <http://www.energytaxsavers.com/articles/Manufacturing%20Facilities%20Drive%20Large%20EAct%20Tax%20Deductions.pdf>

⁴ New Efficient HVAC Drives Large Tax Deductions for Buildings (CCH Publishing): <http://www.energytaxsavers.com/articles/HVAC-Drives-Large-Tax-Deductions.pdf>