



Multifamily Building Owners Benefit from Energy Efficient Improvements using 45L Tax Credits

Energy Tax Savers

Charles R. Goulding and Daniel Audette

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Federal Tax Credits provide excellent opportunities for home builders and multifamily building owners who invest in energy efficient technologies for their buildings.

In recent years, there has been a huge surge in demand for multifamily building property, especially in major urban cores like New York, Chicago, Boston and San Francisco. This surge in demand has led to an increase in new construction and rehabilitation in the multifamily sector. For home builders and multifamily building owners who outfit their properties with energy efficient technologies, there is a significant tax credit available in the form of the 45L tax credit.

Section 45L - Energy Efficiency Home Credit

Originally passed as part of the Energy Policy Act of 2005, the 45L tax credit has become a popular incentive for residential home builders and multifamily building owners to invest in energy efficient technologies for their designs. The credit allows for up to \$2,000/unit for energy efficient lighting, HVAC and building envelope, and can be awarded for both new construction and substantial building retrofits.

Any low-rise residential building can be eligible, and this includes rental properties 3 stories or less, as well as single family units. For residential complexes with multiple units, this credit can add up significantly, as seen in the table below:

Potential Tax Savings for Low-Rise Multifamily Building

Number of Units	Immediate Tax Credit
<i>10 Units</i>	\$20,000
<i>50 Units</i>	\$100,000
<i>70 Units</i>	\$140,000
<i>100 Units</i>	\$200,000
<i>200 Units</i>	\$400,000

For a project to be eligible, it would need to have been completed by December 31, 2017, but legislation is currently pending in Congress to get this to include projects completed in 2018 and 2019. However, taxpayers can still amend their previous tax returns to capture this benefit for eligible projects completed in the last three years, so building owners or homebuilders can still monetize the credit for projects they have completed in 2015, 2016 and 2017, but this window is always shrinking, so it is best to act soon.

Capturing the Benefit

The 45L tax credit is awarded based on the energy efficiency of a building's lighting, HVAC and envelope systems. There are certain technologies that home builders can incorporate that tend to often qualify for the maximum tax credit. LED lighting is becoming more and more common as the

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

Daniel Audette, PE, CEM is a Senior Engineer with Energy Tax Savers.

standard lighting to incorporate into construction and renovation projects due to its energy efficiency and continuously falling prices. Additionally, many multifamily buildings will incorporate a central HVAC system, which can provide large energy savings versus traditional stand-alone systems. Other efficient residential HVAC systems such as heat pumps variable refrigerant flow (VRF) systems are becoming more and more common in all climates.

Another important aspect of qualifying for the 45L credit is the insulation of the property. With the widespread adoption of low-cost insulation types such as spray-foam insulation, multifamily buildings are able to better seal their buildings and reduce the heat gains and losses that affect HVAC systems. High-quality insulation can also have the added benefit of allowing for smaller HVAC systems since the system would not have to account for as much energy transfer through the envelope.

To monetize the benefit, an energy model of the unit/units needs to be performed using qualified software, and the building needs to have an on-site verification of its energy properties. Because of these technical requirements to monetize the credit, it is usually advised to have a specialty firm handle these aspects. However, if a homebuilder incorporates these energy efficient technologies into their property, then there is a high chance that they will qualify for the \$2,000/unit credit.

Conclusion

With the amount of new low rise multifamily construction throughout the country, there is a lot of potential to utilize the 45L tax credit. New York especially has a large stock of new and existing multifamily buildings. If these builders have undertaken energy efficiency measures that can take advantage of this opportunity. It is strongly advised that home builders and building owners who want to monetize the 45L credit utilize a service provider that is familiar with the requirements of processing the \$2,000/unit benefit.