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Retailers Are First Movers for New HVAC Tax Incentives that Reduce Operating Costs

By Charles R. Goulding, Daniel Audette, and Jacob Goldman

New HVAC tax incentives effective January 1, 2014 provide excellent opportunities for retail HVAC replacements.

New HVAC Tax Incentives Effective January 1, 2014 are particularly beneficial for retailers. We are seeing that the new rules are changing the way retailers replace systems. HVAC related electricity costs are a retailer's largest energy related operating cost. The nation's retailers are feeling tremendous economic business pressure and some commentators predict that one third to 50% of today's current retail locations will be closing. Those that survive this adverse environment must substantially reduce their ongoing operating costs.

Retailers Business Challenges and the HVAC

The 2013 holiday season and early 2014 results for many retailers have been poor. Many retailers are closing underperforming stores and many shopping centers have high vacancy rates.¹ This environment enables more opportunistic retailers to upgrade to more desirable locations. Retail owners, operators, landlords and tenants need to understand the large economic benefit

from HVAC tax and business planning.¹¹

Vacant Retail Location HVAC Tax Planning

The majority of vacant store locations have prior generation highly energy efficient package units and chillers that are past their 15 year useful life. With advanced planning the HVAC older units can be replaced with current generation more energy efficient units that are often eligible for utility rebates and the new tax savings. Both retail landlords and tenants are eligible for the new HVAC tax incentives. Landlords can use the new tax incentives to replace worn units and attract informed tenants. Tenants can use the new tax savings to reduce operating costs. Those retailers who wait until the very last minute when all units need to be replaced typically lose out on energy savings, rebates and the tax savings.

Don't Delve Below Twelve

Most retailers utilize package units for their core HVAC needs. Package Unit energy efficiency is rated by what is called EER or Energy Efficiency Rating. The higher the rating, the more efficient the unit is. We tell our owner operator landlord and tenant retail clients to "not delve below 12 when replacing worn units".¹¹¹

The higher EER's for some of the country's leading package unit brands are as follows:

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, is an Engineer and Tax Analyst with Energy Tax Savers, Inc.

Jacob Goldman, LEED A.P, is an Engineer and Tax Consultant with Energy Tax Savers, Inc.



Manufacturer	Series	Highest EER
AAON	RN Series	12.4
Carrier	Weathermaster	12.2
Comfortmaker	RAH Series	12.2
Fraser-Johnston	ZW Series	12.1
Heil	RAH Series	12.2
Bryant	Preferred Line	12.2
Lennox	Strategos	12.8
McQuay	MPSH Series	12.2
Rheem	RLRL Series	12.2
Ruud	RLRL Series	12.2
York	Sunline Mangnum	11.6

The HVAC Tax deduction results for some of our leading retail clients are as follows;

East Coast Retailer <ul style="list-style-type: none">• \$ 325,000 Tax Deduction
Southeast Furniture Retailer <ul style="list-style-type: none">• \$ 4.8 million Tax Deduction
Midwest Electronics Retailer <ul style="list-style-type: none">• \$ 250,000 Tax Deduction
Midwest Clothing Retailer <ul style="list-style-type: none">• \$ 900,000 Tax Deduction

Conclusion

Those retailers that make the effort to understand the new HVAC tax incentives work have the opportunity to substantially reduce their operating costs in a tax effective way. Those who don't utilize the new benefit will even be less competitive in an increasingly difficult market.^{IV}

^I Charles R. Goulding, Andrea Albanese and Raymond Kumar, Corporate Business Taxation Monthly, *The Energy Tax Savings Opportunity for Renovating Retailers with Vacant Stores*, December 2008. Available online at <http://www.energytaxsavers.com>

^{II} Charles R. Goulding, Andrea Albanese and Raymond Kumar, Corporate Business Taxation Monthly, *The HVAC Tax Aspects of Post-Internet Retail Stores*, September 2013. Available online at <http://www.energytaxsavers.com>

^{III} Jacob Goldman, Andrea Albanese and Charles G. Goulding, *Office Buildings Use New January 1, 2014 HVAC Tax Incentives to Improve Energy Star Ratings*, ETSI Publishing, January 2014. Available online at <http://www.energytaxsavers.com>

^{IV} Seann Convey, Raymond Kumar and Charles R. Goulding, *Tax Incentives for Retail Store LED Lighting Solar Supercharging*, ETSI Publishing, May 2013. Available online at <http://www.energytaxsavers.com>