

The EAct Tax Aspects of For-Profit Universities

By Charles R. Goulding, Kenneth Wood and Rachelle Arum

Charles R. Goulding, Kenneth Wood and Rachelle Arum discuss how for-profit universities can maximize tax savings as college facilities are renovated with energy-efficient lighting and HVAC.

For-profit universities represent one of the fastest growing industries in the United States,¹ with annual growth projected at around 20 percent. Selling points to students include flexible schedules and superior career placement services. Many for-profit universities are purchasing portions of bankrupt colleges as a means of acquiring both expanded facilities and regional accreditation. The buildings involved in these transactions are prime candidates for energy-efficient renovations such as reduced energy-efficient lighting and energy-efficient heating, ventilating and air conditioning (HVAC).

Tax Opportunities

Pursuant to Code Sec. 179D, as enacted by the Energy Policy Act of 2005 (EAct),² buildings making qualifying energy-reducing investments in their

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.

Kenneth Wood is a Senior Tax Analyst with Energy Tax Savers, Inc., EAct 179D Experts.

Rachelle Arum is a Tax Analyst with Energy Tax Savers, Inc., EAct 179D Experts.

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 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.

For-Profit Universities Expansion

Many for-profit universities seek regional accreditation to enhance their academic status and to allow students to transfer their credits more readily. The quickest way to achieve accreditation is to buy it. In 2009, for example, Educational Services, Inc., purchased debt-ridden Daniel Webster College, receiving its regional accreditation in the New Hampshire area. Debt-ridden organizations often fail to properly maintain and update buildings in order to reduce expenses. Therefore, the buildings acquired by for-profit universities will need extensive improvements, including energy-reducing investments.

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Table 1. Potential Tax Deductions Available for Energy-Efficient Building Improvements Under Current Legislation

Property	Number of Locations	Total Square Footage	Lighting		HVAC Maximum Deduction	Building Envelope Maximum Deduction	Total
			Minimum Deduction	Maximum Deduction			
 APOLLO GROUP (University of Phoenix)	200	8,674,659	2,602,398	5,204,795	5,204,795	5,204,795	15,614,386
 CCI COBINTHIAN COLLEGES, INC. (Heald College)	100	5,741,000	1,722,300	3,444,600	3,444,600	3,444,600	10,333,800
 CAREER EDUCATION CORPORATION	90	5,500,000	1,650,000	3,300,000	3,300,000	3,300,000	9,900,000
 ITT	140	4,900,000	1,470,000	2,940,000	2,940,000	2,940,000	8,820,000
 DeVry	90	4,260,300	1,278,090	2,566,180	2,566,180	2,566,180	7,668,540
Totals	620	29,075,959	8,722,788	17,445,575	17,445,575	17,445,575	52,336,726

*Total square footage is an estimation based on internet data indicating the average square feet of each location.

For-Profit Industry Growth

The for-profit square footage and its potential EAct tax deductions are presented in Table 1.

College Winter and Summer Sessions

Educational opportunities now exist throughout the calendar year, including summer and winter interims. Occupancy at peak temperature months requires efficient HVAC whereas many older lecture halls lack such systems entirely. New facilities are adding energy-efficient HVAC systems to control the temperature and air handling, including carbon dioxide levels and air turnover. These HVAC units also control motor speeds for multiple motors. Many such improvements are strong candidates for EAct incentives.

LED Lighting

Long-life, low-wattage LED lighting is now a viable alternative for college facilities, where lighting constitutes a major source of energy use. LED lighting lasts 40 times longer than traditional technologies and uses one-tenth the electricity that today's incandescent light bulbs use. LED lighting not only reduces energy consumption and green house gases but also allows for-profit institutions to receive EAct tax reductions.³ Combined energy-efficient HVAC and LED lighting upgrades maximize EAct potential.

Colleges to Environmental Responsibility

Conserving energy and protecting the environment is a good policy on its own and one that attracts environmentally conscious students. Apollo Group

has a “*Lighting Controls*” policy that equips data centers with motion detection systems to eliminate nonemergency lighting during periods of high human occupancy. University of Phoenix recently celebrated the grand opening of its first LEED gold campus. This LEED campus includes an energy-efficient HVAC system, large windows to reduce the electricity load during the day and low mercury lamps. LEED buildings are especially well-positioned for large EPC tax incentives.⁴

Online Education Promotes Competition Between Regional and For-Profit Universities

Coursera is a free, online education program that has enlisted leading colleges including Columbia University, University of Florida, Stanford University and 30 other partners. It offers 200 courses and has enrolled 1.3 million users. Once the sole dominion of the for-profits, online education is now another competitive battleground between for-profit universities and traditional schools. Competition will drive both technological innovation within this space and will also exert downward pressure on pricing. Reducing building operating costs while utilizing

EPC tax incentives can help for-profit universities compete with its new online competitors.

Conclusion

For-profit universities have become a popular choice among students in recent years due to their economical, flexible and wide-ranging courses. These universities have adopted many attractive features including regional accreditation, online courses and eco-friendly campuses. Many schools are “going green” in an effort to create a more dynamic learning environment. LEED campuses achieve large savings on their water, electricity and HVAC bills which result in an additional tax benefit. Students know the importance of a future investment, whether towards their education or environment.

ENDNOTES

- ¹ Lauren Setar, *Top Ten Fastest Growing Industries*, IBISWORLD, available online at www.ibisworld.com/Common/MediaCenter/Fastest%20Growing%20Industries.pdf.
- ² Energy Policy Act of 2005 (P.L. 109-58) (“EPC”).
- ³ Charles Goulding, Jacob Goldman and Taylor Goulding, *The Economic, Business, and Tax Aspects of Light Emitting Diode Interior Building Lighting*, CORP. BUS. TAX’N MONTHLY, Jan. 2009, at 29.
- ⁴ Charles Goulding, Taylor Goulding and Amelia Aboff, *How LEED 2009 Expands EPC Tax Savings Opportunities*, CORP. BUS. TAX’N MONTHLY, Sept. 2009, at 11.



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