

## The EPAct Tax Aspects of High Growth Specialty Restaurants

*By Charles R. Goulding, Jennifer Pariente, and Raymond Kumar*

Analysts at Energy Tax Savers take a look at the potential for high growth specialty restaurants to claim EPAct tax deductions, especially with the efficient usage of light-emitting diode (LED) technology.

Throughout the United States, the restaurant industry is rapidly installing long life low wattage energy efficient LED interior lighting. The fast growing specialty chains have a distinct advantage in that they can install energy design in LED lighting at the onset with their new location construction planning and obtain EPAct tax incentives.

### Code Section 179D EPAct Tax Opportunities

Pursuant to Energy Policy Act (EPAct) Code Sec. 179D, as enacted by EPAct, 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.

**Table A.** 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 EPAct Tax Incentive Math

Table A represents the EPAct potential tax deductions for the high growth specialty restaurants:

#### LED Lighting EPAct Tax Deductions

Existing high growth specialty restaurants are quickly moving to low wattage long life LED lighting which normally qualifies for the full EPAct

Property	Total Square Footage	Lighting		HVAC	Building Envelope	Total
		Minimum Deduction	Maximum Deduction	Maximum Deduction	Maximum Deduction	
Dunkin Donuts*	20,166,000	\$ 6,049,800	\$ 12,099,600	\$ 12,099,600	\$ 12,099,600	\$ 36,298,800
Starbucks* (Warehouses, Distribution Centers, & Stores)	17,386,000	\$ 5,215,800	\$ 10,431,600	\$ 10,431,600	\$ 10,431,600	\$ 31,294,800
Panera (Dough Facilities & Stores)	7,495,600	\$ 2,248,680	\$ 4,497,360	\$ 4,497,360	\$ 4,497,360	\$ 13,492,080
Buffalo Wild Wings	4,844,000	\$ 1,453,200	\$ 2,906,400	\$ 2,906,400	\$ 2,906,400	\$ 8,719,200
Chipotle	3,180,520	\$ 954,156	\$ 1,908,312	\$ 1,908,312	\$ 1,908,312	\$ 5,724,936
<b>Totals:</b>	<b>53,072,120</b>	<b>\$ 15,921,636</b>	<b>\$ 31,843,272</b>	<b>\$ 31,843,272</b>	<b>\$ 31,843,272</b>	<b>\$ 95,529,816</b>

\*Contains LEED designed buildings. LEED designs increase the chances of obtaining an EPAct deduction

lighting tax deduction.<sup>1</sup>

In a Dunkin Donuts' warehouse, metal halides were replaced with high efficiency T8 and LED lighting technologies to significantly reduce energy consumption. They also put in high-performance HVAC and refrigeration equipment.

Additionally, Starbucks' signage is being restructured from neon to LED. They are pushing their equipment efficiency standards higher to maintain their goal of using the most efficient HVAC and refrigeration equipment available. They were also testing an innovative water heater solution.

### **LED/LEED Combination**

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LEED stands for Leadership in Energy and Environmental Design and is the renowned standard for sustainable buildings in the United States<sup>2</sup>. In conditioned (cooled) LEED buildings, air conditioning is the largest building energy user. Conditioned LEED buildings will qualify for a LED lighting tax deduction of \$1.80 per square foot when the buildings HVAC system is very energy efficient.

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<sup>1</sup> Charles Goulding, Spencer Marr, & Andrea Albanese. "The Tax Aspects of LED Lighting for Major Fast Food Restaurants" Corporate Business Taxation Monthly, August 2011, Pg. 15-16, 45-46.

<sup>2</sup> Charles Goulding, Jacob Goldman, & Amelia Aboff. "How LEED 2009 Expands EPA Act Tax Savings Opportunities" Corporate Business Taxation Monthly, September 2009, Pg. 11-13.

To qualify for the \$1.80 LED lighting tax deduction the building must be modeled in IRS approved software. Building owners should utilize tax engineers who are intimately familiar with the EPA Act building modeling process. An experienced tax engineer will be able to confirm before the LED LEED building lighting installation whether it is likely to qualify for the \$1.80 LED lighting tax deduction.

Starbucks started by replacing their traditional incandescent and halogen bulbs with LEDs in over 8,000 of their stores worldwide. They achieved energy savings by using energy efficient lighting, HVAC systems, and Energy Star rated equipment. They then announced their goal of having all of their new company-owned stores to become LEED certified starting in 2010.

Dunkin Donuts' first LEED certified store was open in 2008 in their St. Petersburg, Florida location. There, LEED enhancements included energy efficient insulated concrete foam walls to reduce air conditioning usage by 40% and the use of energy efficient LED lighting. Using the St. Petersburg store as a prototype, Dunkin Donuts continues to strive to make their stores LEED certified with the goal of evolving their brand by growing their business in a more sustainable way.

### **Conclusion**

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New fast growing concepts are never tethered to traditional thinking. The fast growing specialty restaurant chains can achieve top line growth with rapid

expansion and bottom line advantage from new energy efficient lighting supported by tax savings.

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

**Jennifer Pariente** is a Tax Analyst with Energy Tax Savers, Inc., The EPAct 179D Experts.

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

Contact the experts at Energy Tax Savers today at [www.energytaxsavers.com](http://www.energytaxsavers.com) or by email at [info@energytaxsavers.com](mailto:info@energytaxsavers.com).