

The EAct Tax Aspects of LED Lighting for Chicken Chains

By Charles R. Goulding, Jennifer Pariente, and Jacob Goldman

Analysts at Energy Tax Savers take a look at the potential for chicken restaurants to claim EAct tax deductions, especially with the efficient usage of LED technology.

Chicken is a major national chain food category primarily sold by both chicken focused restaurants and by major hamburger chains. With this level of competition operating cost management is critical and low wattage energy saving long life LED lighting is being quickly adapted. LED lighting normally qualifies for Section 179D tax incentives.

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

Table A represents the EAct potential tax deductions for the leading chicken chains as well as a LEED designed chicken chain:

Table A.

Property	Total Square Footage	Lighting		HVAC	Building Envelope	Total
		Minimum Deduction	Maximum Deduction	Maximum Deduction	Maximum Deduction	
KFC*	9,560,000	\$ 2,868,000	\$ 5,736,000	\$ 5,736,000	\$ 5,736,000	\$ 17,208,000
Chick-fil-A*	6,750,000	\$ 2,025,000	\$ 4,050,000	\$ 4,050,000	\$ 4,050,000	\$ 12,150,000
Church's Chicken/ Texas Chicken	5,100,000	\$ 1,530,000	\$ 3,060,000	\$ 3,060,000	\$ 3,060,000	\$ 9,180,000
Popeyes	4,123,500	\$ 1,237,050	\$ 2,474,100	\$ 2,474,100	\$ 2,474,100	\$ 7,422,300
Bojangles' Famous Chicken 'n Biscuits	1,750,000	\$ 525,000	\$ 1,050,000	\$ 1,050,000	\$ 1,050,000	\$ 3,150,000
El Pollo Loco	960,000	\$ 288,000	\$ 576,000	\$ 576,000	\$ 576,000	\$ 1,728,000
Chicken Express	510,000	\$ 153,000	\$ 306,000	\$ 306,000	\$ 306,000	\$ 918,000
Raising Cane's Chicken	320,000	\$ 96,000	\$ 192,000	\$ 192,000	\$ 192,000	\$ 576,000
Roy Rogers	168,300	\$ 50,490	\$ 100,980	\$ 100,980	\$ 100,980	\$ 302,940
Totals:	29,241,800	\$ 8,772,540	\$ 17,545,080	\$ 17,545,080	\$ 17,545,080	\$ 52,635,240

LED Lighting EAct Tax Deductions

Existing chicken chains are quickly moving to low wattage long life LED lighting which normally qualifies for the full EAct lighting tax deduction.¹ Starting with their store in Indianapolis, KFC has installed LED lighting with the goal of energy efficiency & economic responsibility. The building is designed to use 25 percent less energy and water than a typical KFC restaurant. It features energy-efficient cooking equipment, low-power, long-life LED lighting, locally sourced building materials, parking preference for hybrid vehicles, fixtures designed for lower water use, waste recycling, and many other green innovations.

LED/LEED Combination

LEED stands for Leadership in Energy and Environmental Design and is the renowned standard for sustainable buildings in the United States². 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.

¹ 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.

² Charles Goulding, Jacob Goldman, & Amelia Aboff. "How LEED 2009 Expands EAct 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 EAct 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.

In 2009, the Northampton, Massachusetts KFC/Taco Bell received LEED Gold certification. The restaurant was designed to use 30 percent less energy and water. It uses solar energy to preheat fresh air coming into the building which reduces the use of natural gas, and a lighting control system that maximizes the use of natural light.

Additionally, Chick-fil-A at Montgomery Plaza in Fort Worth, Texas is the chain's first restaurant built to LEED Gold standards. To achieve energy efficiency, the location's sustainable features include low-flow fixtures and rainwater harvesting for use in landscape irrigation as well as natural daylighting, resulting from skylights and windows, and energy efficient appliances. As a result, Chick-fil-A at Montgomery Plaza uses 14% less energy than industry standards. Chick-fil-A will integrate these energy conservation measures into all new restaurant construction. By the end of

2012, over half of the chain's 1,600+ restaurants will receive energy and water retrofits. These enhancements are part of the company's commitment to energy conservation and are expected to result in significant cost savings for each restaurant.

Conclusion

Crossing the road and switching to LED lighting can result in large tax savings. To get to the other side, operating cost management is critical and low wattage energy saving long life LED lighting is essential to gain significant EAct tax savings.

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