

The EAct Tax Aspects of Obesity Solution Companies

By Charles R. Goulding, Andrea Albanese, and Daniel Audette

There is a growing focus on the national obesity epidemic. Studies show that on a global level, 500 million people are obese. The U.S. Institute of Medicine reported that the annual cost of obesity-related illnesses in the U.S. is over \$190 billion.

One of the financial industry's recent products is the development of an obesity stock investment portfolio. This portfolio includes companies that are expected to benefit from multifaceted solutions to addressing the obesity problem.¹

Companies expected to flourish in the near future from tackling obesity are categorized into pharmaceuticals and healthcare, food, commercial weight loss, diet management and nutrition, and sports apparel and equipment. These categories span across a large sector of business, each category standing to obtain large EAct tax incentives.

Tax Opportunities

Pursuant to Energy Policy Act (EAct) Section 179D, buildings 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 doesn't 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.

Presented below are the EAct tax incentives for the kinds of companies that might be included in the obesity stock portfolio categories.

The Potential EAct Tax Deductions Available for Energy Efficient Building Improvements for a Hypothetical Obesity Fund

Property	Number of Locations	Total Square Footage	Lighting		HVAC Maximum Deduction	Building Envelope Maximum Deduction	Total
			Minimum Deduction	Maximum Deduction			
Weight Loss, Diet Management, & Nutrition							
Jenny Craig	650	1,300,000	\$ 390,000	\$ 780,000	\$ 780,000	\$ 780,000	\$ 2,340,000
GNC	3804	7,218,000	\$ 2,165,400	\$ 4,330,800	\$ 4,330,800	\$ 4,330,800	\$ 12,992,400
Vitamin Shoppe	533	2,095,500	\$ 628,650	\$ 1,257,300	\$ 1,257,300	\$ 1,257,300	\$ 3,771,900
Commercial Weight Loss & Fitness Centers							
24 Hr Fitness	425	21,250,000	\$ 6,375,000	\$ 12,750,000	\$ 12,750,000	\$ 12,750,000	\$ 38,250,000
Gold's Gym	481	19,240,000	\$ 5,772,000	\$ 11,544,000	\$ 11,544,000	\$ 11,544,000	\$ 34,632,000
Curves	10,000	15,000,000	\$ 4,500,000	\$ 9,000,000	\$ 9,000,000	\$ 9,000,000	\$ 27,000,000
LA Fitness	296	11,840,000	\$ 3,552,000	\$ 7,104,000	\$ 7,104,000	\$ 7,104,000	\$ 21,312,000
Sporting Apparel & Equipment							
DICK'S Sporting Goods/Golf Galaxy	567	27,800,000	\$ 8,340,000	\$ 16,680,000	\$ 16,680,000	\$ 16,680,000	\$ 50,040,000
Sports Authority	476	19,040,000	\$ 5,712,000	\$ 11,424,000	\$ 11,424,000	\$ 11,424,000	\$ 34,272,000
Foot Locker Inc.	2,586	10,175,000	\$ 3,052,500	\$ 6,105,000	\$ 6,105,000	\$ 6,105,000	\$ 18,315,000
Hibbett Sports	832	4,660,000	\$ 1,398,000	\$ 2,796,000	\$ 2,796,000	\$ 2,796,000	\$ 8,388,000
Modell's Sporting Goods	150	3,000,000	\$ 900,000	\$ 1,800,000	\$ 1,800,000	\$ 1,800,000	\$ 5,400,000
Adidas Warehouses	6	2,751,000	\$ 825,300	\$ 1,650,600	\$ 1,650,600	\$ 1,650,600	\$ 4,951,800
New Balance Warehouses	5	571,800	\$ 171,540	\$ 343,080	\$ 343,080	\$ 343,080	\$ 1,029,240
Pharmaceuticals and Healthcare							
Arena Pharmaceuticals	7	345,000	\$ 103,500	\$ 207,000	\$ 207,000	\$ 207,000	\$ 621,000
Orexigen Therapeutics	1	31,500	\$ 9,450	\$ 18,900	\$ 18,900	\$ 18,900	\$ 56,700
EnteroMedics Inc.	1	28,388	\$ 8,516	\$ 17,033	\$ 17,033	\$ 17,033	\$ 51,098
Arrowhead Research Corporation	2	27,000	\$ 8,100	\$ 16,200	\$ 16,200	\$ 16,200	\$ 48,600
Vivus	2	22,900	\$ 6,870	\$ 13,740	\$ 13,740	\$ 13,740	\$ 41,220
Total:		146,396,088	\$ 15,331,050	\$ 87,837,653	\$ 87,837,653	\$ 87,837,653	\$ 263,512,958

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

Note: This is a hypothetical portfolio created by the authors and does not represent any particular obesity fund.

LED Lighting/LEED Certification EAct Tax Deductions

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

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.

Retail Energy Efficiency

Many of the obesity stock companies properties are moving towards energy efficiency in their facilities. GNC has installed low wattage long life LED lighting in their company headquarters and in over 1,500 company stores.ⁱⁱⁱ Dick's Sporting Goods' 675,000 square foot headquarters is LEED certified.^{iv}

Nike retail stores are achieving energy efficiency by means of energy management system (EMS) installation in their retail outlet locations. Of Nike's 200 retail locations, 170 of them are equipped with EMS. Territory facility manager, Shawn Browning, says the goal of EMS installation is to "Maximize savings but minimize the impact on operations and the customer experience". Nike's savings goal is an average of 12% energy savings quarterly.^v

The building types involved with these companies vary and include warehouses, manufacturing facilities, distribution centers, office buildings, fitness centers, health clubs, laboratories and retail stores. Below are the EAct wattage targets for each building type.

EAct Wattage Targets

Building Category	ASHRAE 90.1.200 (W/ft²)	25% better than ASHRAE 2001 (Min. Deduction)	40% better than ASHRAE 2001 (Max. Deduction)
Exercise Center	1.4	1.05	0.84
Gymnasium	1.7	1.275	1.02
Health Care Clinic	1.6	1.2	0.96
Manufacturing	2.2	1.65	1.32
Office	1.3	0.975	0.78
Retail	1.9	1.425	1.14
Warehouse	1.2	50% Improvement - 0.60 w/sq ft	
Workshop	1.7	1.275	1.02

*Minimum deduction represents \$0.30 per square foot

*Maximum deduction represents \$0.60 per square foot

Conclusion

The obesity problem requires multiple solutions. As we trim the fat from the global obesity epidemic, we can simultaneously trim energy costs and obtain EAct benefits.

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.

Andrea Albanese is an Analyst with Energy Tax Savers, Inc

ⁱ “Efforts To Tackle Global Obesity Shaping A New Investment Megatrend, Says New BofA Merrill Lynch Report” Business Wire, July 16, 2012. Accessed at http://www.thestreet.com/story/11618602/1/efforts-to-tackle-global-obesity-shaping-a-new-investment-megatrend-says-new-bofa-merrill-lynch-report.html?cm_ven=emailfriend

ⁱⁱ Charles Goulding, Jacob Goldman, & Amelia Aboff. “How LEED 2009 Expands EPA Act Tax Savings Opportunities” Corporate Business Taxation Monthly, September 2009, Pg. 11-13.

ⁱⁱⁱ Laura Peters. “GNC stores upgraded with Lighting Science Group’s LED lamps” LEDs Magazine, August 2011. Accessed at <http://ledsmagazine.com/news/8/8/13>

^{iv} “Top 7: Largest Pittsburgh-area LEED-certified projects” Pittsburgh Business Times, July 1, 2011. Accessed at <http://www.bizjournals.com/pittsburgh/news/2011/07/01/largest-pgh-area-leed-certified-projects.html>

^v Greg Zimmerman. “Efficiency and The Bottom Line” Building Operating Management, July 2012, Pg. 30-35.