

The EAct Tax Aspects of Warehouse Club Energy Cost Savings

By Charles Goulding, Sweetie Christian and Christopher Winslow

Charles Goulding, Sweetie Christian and Christopher Winslow discuss the tax savings opportunities available to retail warehouse clubs through Code Sec. 179D.

During the economic downturn, the big-three retail warehouse clubs—BJ's Warehouse Club, Costco Wholesale and Sam's Club—have gained market share. Consumers at all economic levels enjoy the discount pricing available from the club food and merchandise offerings. While gaining market share, these organizations confront food commodity price increases and strive to do everything they can to control costs. On October 9, 2011, Costco announced that rising product costs required them to raise the annual club membership fee. The warehouse club facilities are essentially large retail warehouses where today's lighting and HVAC technologies offer tremendous energy cost savings. Code Sec. 179D tax savings are based on square footage, which means these facilities have particularly large tax savings opportunities.

Code Sec. 179D

Under Code Sec. 179D, as enacted by the Energy Policy Act of 2005 (EAct),¹ building owners who make qualifying energy-reducing investments can

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obtain immediate tax deductions of up to \$1.80 per square foot.

If the building project doesn't qualify for the maximum of \$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 covers every part of the building's exterior perimeter that touches the outside world including roof, walls, insulation, doors, windows and foundation.

Lighting

Energy-efficient lighting offers a quick economic payback and easily achievable tax savings. Moreover, many of these stores still have federally banned probe start metal halide lighting and T-12 lighting that the stores need to replace. The lighting related electrical cost savings from these upgrades is typically 40 percent to 60 percent and often less than two-year economic payback.

Energy-Efficient HVAC for Retail Distribution Centers

The HVAC technologies that will typically produce favorable EAct tax deduction results for these types of facilities include:

- chillers in facilities less than 150,000 square feet;
- very high energy-efficient chillers;
- energy recovery ventilation (ERV);

Table 1. Actual Facilities Results

Project Location	Eligible Square Feet	EPAct Qualifying %	EPAct Tax Deduction	EPAct Tax Deduction	HVAC Technology
Washington	708,345	36.45%	\$1.20/sq.ft.	\$ 850,014	DCV,VAV
Minnesota	570,567	64.63%	\$1.80/sq.ft.	\$ 1,027,021	Cambridge Gas Heaters
California	529,300	24.81%	\$0.60/sq.ft.	\$ 317,580	DCV
California	398,516	36.79%	\$1.20/sq.ft.	\$ 478,219	DCV
New Jersey	357,604	33.56%	\$1.20/sq.ft.	\$ 429,125	DCV, ERV
Washington	349,079	24.68%	\$1.20/sq.ft.	\$ 418,895	DCV,VAV
New Jersey	292,458	52.84%	\$1.80/sq.ft.	\$ 422,384	DCV, ERV
Montana	211,702	39.57%	\$1.20/sq.ft.	\$ 254,042	DCV, ERV
California	161,375	51.48%	\$1.80/sq.ft.	\$ 290,475	DCV
California	95,000	47.53%	\$1.20/sq.ft.	\$ 114,000	Chiller <150 K sq.ft.,
California	73,418	58.63%	\$1.80/sq.ft.	\$ 132,152	Chiller <150 K sq.ft.
California	69,965	51.74%	\$1.80/sq.ft.	\$ 125,937	DCV, Chiller<150K sq.ft.
California	62,069	58.16%	\$1.80/sq.ft.	\$ 111,724	DCV, Chiller<150K sq.ft.
New York	60,930	43.22%	\$1.20/sq.ft.	\$ 73,116	Chiller < 150 K sq.ft.
Totals	3,940,328			\$ 5,044,685	



Table 2. BJ's Wholesale Club

Potential Tax Deductions Available for Energy Efficient Building Improvements Under Current Legislation

Property	Estimated Total Square Footage	Lighting		HVAC Maximum Deduction	Building Envelope Maximum Deduction	Total
		Minimum Deduction	Maximum Deduction			
180 Stores All Over the East Coast (80,000 sq.ft each)	14,400,000	\$ 4,320,000	\$ 8,640,000	\$ 8,640,000	\$ 8,640,000	\$ 25,920,000
Burlington, NJ	634,000	\$ 190,200	\$ 380,400	\$ 380,400	\$ 380,400	\$ 1,141,200
Uxbridge, MA Distribution Center	618,000	\$ 185,400	\$ 370,800	\$ 370,800	\$ 370,800	\$ 1,112,400
Jacksonville, FL Distribution Center	480,000	\$ 144,000	\$ 288,000	\$ 288,000	\$ 288,000	\$ 864,000
Totals:	16,132,000	\$ 4,839,600	\$ 9,679,200	\$ 9,679,200	\$ 9,679,200	\$ 29,037,600

Table 3. Costco Wholesale



Potential Tax Deductions Available for Energy Efficient Building Improvements

Property	Total Square Footage	Lighting		HVAC Maximum Deduction	Building Envelope Maximum Deduction	Total
		Minimum Deduction	Maximum Deduction			
United States Member Warehouse Portfolio	62,100,000	\$ 18,630,000	\$ 37,260,000	\$ 37,260,000	\$ 37,260,000	\$ 111,780,000
Distribution Centers*	5,000,000	\$ 1,500,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 9,000,000
Executive Offices	581,000	\$ 174,300	\$ 348,600	\$ 348,600	\$ 348,600	\$ 1,045,800
Totals:	67,681,000	\$ 20,304,300	\$ 40,608,600	\$ 40,608,600	\$ 40,608,600	\$ 121,825,800



Table 4. Sam's Club

Potential EPA Act 179D Tax Deductions Available for Energy Efficient Building Improvements

Property	Total Square Footage	Lighting		HVAC Maximum Deduction	Building Envelope Maximum Deduction	Total
		Minimum Deduction	Maximum Deduction			
609 Stores at an Average of 133,000 sq ft each	80,997,000	\$ 24,299,100	\$ 48,598,200	\$ 48,598,200	\$ 48,598,200	\$ 145,794,600

- demand control ventilation (DCV); and
- for facilities 150,000 square foot or greater, combinations of very efficient chillers ERV and/or DCV.

The actual case study results for similar air conditioned facilities across the country are shown in Table 1.

The facilities represented above that qualify for the full \$1.80 per square foot EPA Act tax deduction typically

account for this result is by combining energy-efficient lighting along with the specified HVAC.

The magnitude of potential tax savings available from the top three clubs are shown in Table 2, Table 3 and Table 4.

EPAct Tax Planning

In Rev. Proc. 2011-14,² the IRS announced that building owners who previously missed their EPAct tax deductions can now use the tax accounting procedure to catch up missed EPAct tax deductions. This means that new stores built since January 1, 2006, as well as stores with post January 1, 2006, retrofits can recoup missed EPAct tax deductions and report them on a current tax return. For example, a club

facility that previously retrofitted its lighting and is now upgrading its HVAC to EPAct qualifying levels could now claim both deductions on its current year tax return.

Conclusion

By utilizing today's technologies, the big-three retail warehouse clubs have tremendous energy cost and tax savings opportunities. These savings are there for the taking and club membership is not required.

ENDNOTES

¹ Energy Policy Act of 2005 (P.L. 109-58).

² Rev. Proc. 2011-14, IRB 2011-4, 330.



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