

The Tax Aspects of PVH and Warnaco's Corporate Environmental Policy

By Charles R. Goulding, Andressa Bonafe, and Andrea Albanese

Analysts at Energy Tax Savers take a look at Phillips-Van Heusen Corporation's environmental sustainability initiatives.

Founded in the 19th century, Phillips-Van Heusen Corporation (PVH) is a global company with revenues of over \$5.5 billion¹. Amongst the world's largest apparel corporation, PVH owns internationally recognized brands such as Calvin Klein, Tommy Hilfiger, and Van Heusen. PVH is in the process of acquiring Warnaco Group, Inc., a Delaware corporation that owns brands such as Speedo, Chaps, Warner's, and Olga.

After this recently announced acquisition, PVH-Warnaco will become an \$8 billion sales company. Aware of the impacts of its global activities and based on the acknowledgement of earth's limited natural resources, PVH has developed a series of environmental commitments with the objective of incorporating sustainability into all aspects of its operations. Similar to other major companies, such as Walmart², PepsiCo³, Baxter International⁴, Procter & Gamble⁵, and Target⁶, PVH has designed a comprehensive environmental policy that focuses on three main areas: facilities, products/packaging, and supply chain.

This article will discuss how EPAct tax deductions can play a significant role in carbon footprint minimization and supply chain sustainability aspects of PVH's program.

EPAct Tax Deductions

Pursuant to Code Sec. 179D, as enacted by the Energy Policy Act of 2005 (EPAct)⁷, properties that make qualifying energy-reducing investments in 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 EPAct \$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 comprises of every item on the building's exterior perimeter that touches the outside world including roof, walls, insulation, doors, windows, and foundation.

Exhibit 1 presents potential EPAct tax savings for PVH's retail locations, warehouses, distribution centers, and offices, as well Warnaco's retail locations and offices.

Tax Credits

Pursuant to the Internal Revenue Code Sec. 48, companies or individuals installing various qualifying alternative energy technology can use a variety of 10% and 30% alternative energy tax credits.

Exhibit 1:



Potential EAct 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			
700 Retail Locations	3,150,000	\$ 945,000	\$ 1,890,000	\$ 1,890,000	\$ 1,890,000	\$ 5,670,000
Warehouse & Distribution						
McDonough, Georgia	851,000	\$ 255,300	\$ 510,600	\$ 510,600	\$ 510,600	\$ 1,531,800
Jonesville, North Carolina	747,000	\$ 224,100	\$ 448,200	\$ 448,200	\$ 448,200	\$ 1,344,600
Reading, Pennsylvania	410,000	\$ 123,000	\$ 246,000	\$ 246,000	\$ 246,000	\$ 738,000
Chattanooga, Tennessee	451,000	\$ 135,300	\$ 270,600	\$ 270,600	\$ 270,600	\$ 811,800
Los Angeles, California	200,000	\$ 60,000	\$ 120,000	\$ 120,000	\$ 120,000	\$ 360,000
Brinkley, Arkansas	112,000	\$ 33,600	\$ 67,200	\$ 67,200	\$ 67,200	\$ 201,600
Offices						
Corporate Administration - New York, NY	209,000	\$ 62,700	\$ 125,400	\$ 125,400	\$ 125,400	\$ 376,200
Tommy Hilfiger Administration - New York, NY	252,000	\$ 75,600	\$ 151,200	\$ 151,200	\$ 151,200	\$ 453,600
Calvin Klein Administration - New York, NY	183,000	\$ 54,900	\$ 109,800	\$ 109,800	\$ 109,800	\$ 329,400
Finance and Retail Offices - Bridgewater, NJ	324,000	\$ 97,200	\$ 194,400	\$ 194,400	\$ 194,400	\$ 583,200
Totals:	6,889,000	\$ 1,682,700	\$ 3,365,400	\$ 3,365,400	\$ 3,365,400	\$ 10,096,200



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			
Retail Space	1,087,000	\$ 326,100	\$ 652,200	\$ 652,200	\$ 652,200	\$ 1,956,600
Calvin Klein Jeanswear - NJ	500,000	\$ 150,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 900,000
World Headquarters - NYC	150,000	\$ 45,000	\$ 90,000	\$ 90,000	\$ 90,000	\$ 270,000
Offices - Milford, CT	94,550	\$ 28,365	\$ 56,730	\$ 56,730	\$ 56,730	\$ 170,190
Swimwear Group HQ - Los Angeles, CA	38,000	\$ 11,400	\$ 22,800	\$ 22,800	\$ 22,800	\$ 68,400
Total:	1,869,550	\$ 560,865	\$ 1,121,730	\$ 1,121,730	\$ 1,121,730	\$ 3,365,190

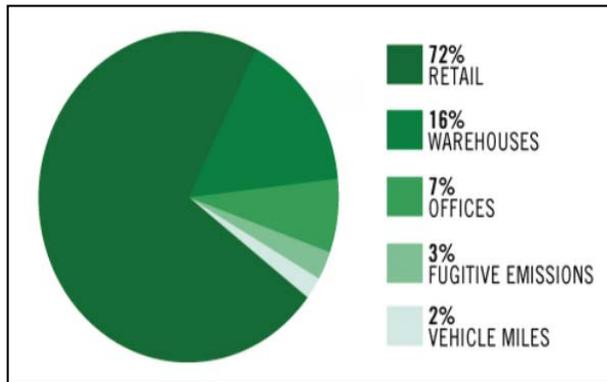
Minimizing PVH's Carbon Footprint

PVH understands that the goal of reducing the environmental impact of its operations is intrinsically related to minimizing its greenhouse gas emissions. To this end, the company has developed programs to monitor and decrease its energy consumption. **Exhibit 2**, originally featured in the 2011 PVH Corporate Social

Responsibility Report⁸, presents PVH's emission sources.

According to the same report, in 2011, PVH's U.S. facilities have consumed 146,922,705 kWh. Building Energy was responsible for virtually the totality (95%) of the company's carbon footprint, particularly retail and office locations, which present the highest emissions per square foot (see **Exhibit 3**).

Exhibit 2:



According to the company’s Corporate Responsibility Website¹⁰, energy efficiency measures are underway to minimize the carbon footprint of its facilities. In 2011, PVH initiated a series of lighting retrofit projects (installation of LED and motion sensors) and implemented energy scans to assist in its decision to replace HVAC units. Such projects are likely to qualify for EPA Act tax savings (see **Exhibit 1**), meaning that PVH investment costs to achieve its sustainability goals can be significantly reduced. Moreover, the company has started implementing renewable energy projects, which can also qualify for tax incentives.

Promoting Supply Chain Sustainability

PVH’s approach to sustainability is based on the notion of variable influence and impact. Especially with regards to the supply chain, the company acknowledges that although operations are not under its direct control, their impact on the environment is undeniable and cannot be disregarded. That is why PVH is mobilizing its efforts to reinforce its influence over its supply chain, particularly through the implementation of environmental management systems, the elimination of

Exhibit 3:

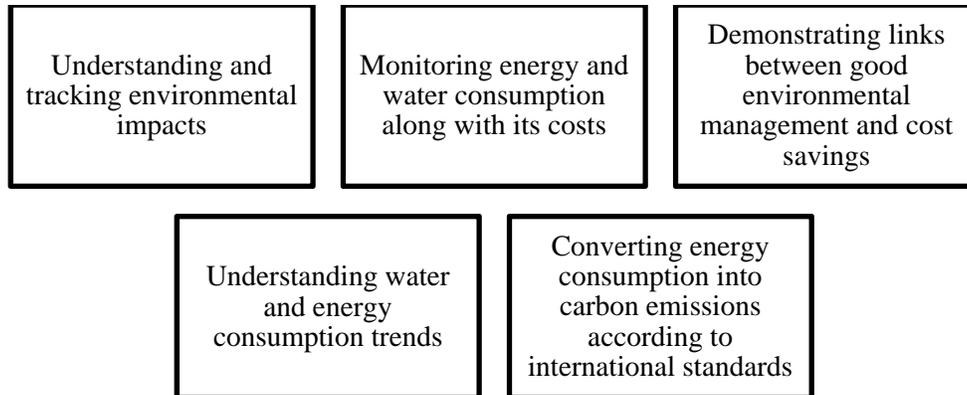
PVH U.S. Carbon Footprint Summary 2011

	Building Energy CO ₂ in Tons	Vehicle Miles CO ₂ in Tons	Fugitive Emission CO ₂ in Tons
Offices	5,913	0	2
Warehouses	13,382	1,440	19
Retail	61,911	380	2,597
Total	81,206	1,820	2,618

	Building Energy CO ₂ kg/sq. ft
Offices	7.93
Warehouses	3.83
Retail	15.14

restricted substances and the improvement of material and energy efficiency. To this end, the company has developed two environmental assessment tools: (1) the environmental profile tool and (2) the water, energy, and carbon footprint tool.

Launched in September 2011, the water, energy, and carbon footprint tool was initially applied to 64% of PVH’s internal supply chain, excluding Tommy Hilfiger¹¹. It encompasses five different objectives, as presented below:



PVH as a Sustainable Supplier

While PVH requires sustainable practices from its suppliers, it must respond to demands from its consumers. A considerable amount of the company's revenues come from retailers and wholesale buyers, such as Macy's, Walmart, JCPenney, and Kohl's, which have their own supplier sustainability programs. In 2010, sales to its five largest clients accounted for more than 20% of PVH's revenue¹². As a Walmart business partner, PVH is required to respond to 15 Sustainability Supplier Assessment Questions, concerning energy and climate, materials efficiency, nature and resources, and people and community¹³.

Similarly, Kohl's evaluates its suppliers using the Higg Index, a "common, industry-wide tool for measuring the environmental and social performance of apparel products and the supply chains that produce them"¹⁴, developed by the Sustainable Apparel Coalition. According to the retailers' website, this tool was first implemented in 2011 and is expected to drive major sustainability improvements through its supply chain.

PVH's supply chain position is a good example of how companies, by establishing sustainability goals, have the power of triggering similar behaviors from its immediate suppliers, spreading sustainable practices through the lowest tiers of the supply chain.

Conclusion

PVH's Corporate Environmental Policy simultaneously responds to its clients' sustainability standards and raises new requirements to its own business partners. The environmental commitments stated are going to drive important improvements not only on PVH's facilities but throughout its supply chain. The ongoing acquisition of the Warnaco Group, Inc. is bound to intensify this phenomenon. A variety of energy-related Code Sec. 179D and alternative energy tax credits are available to support these measures.

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¹ More information available online at <http://www.pvh.com/>.

² Charles Goulding, Jacob Goldman, and Christopher Winslow, *The EAct and Alternative Energy Tax Aspects of Walmart's Supplier Sustainability Program*, Corp. Bus. Tax'n Monthly, June 2011, at 13.

³ Charles R. Goulding, Charles G. Goulding, and Jennifer Pariente, *The Tax Aspects of the PepsiCo Sustainability Supply Chain*, Corp. Bus. Tax'n Monthly, Nov. 2012, at 15.

⁴ Charles R. Goulding, Jennifer Pariente, and Charles G. Goulding, *The Tax Aspects of the Baxter International Medical Device Sustainability Supply Chain*, Corp. Bus. Tax'n Monthly, Nov. 2012, at 11.

⁵ Charles R. Goulding, Charles G. Goulding, and Addressa Bonafe, *The Tax Aspects of the Procter & Gamble Sustainability Program*, To be published in Corp. Bus. Tax'n Monthly.

⁶ Charles R. Goulding, Addressa Bonafe, and Raymond Kumar, *The Tax Aspects of Target's Corporate Responsibility Program*, To be published in Corp. Bus. Tax'n Monthly.

⁷ Energy Policy Act of 2005 (P.L. 109-58).

⁸ 2011 PVH Corporate Social Responsibility Report, at 59. Available online at: http://www.pvhcsr.com/csr2011/pdf/PVH_CSR_2011.pdf.

⁹ 2011 PVH Corporate Social Responsibility Report, at 58. Available online at: http://www.pvhcsr.com/csr2011/pdf/PVH_CSR_2011.pdf.

¹⁰ PVH Corporate Responsibility Website, *2011 Performance*, available online at: http://www.pvhcsr.com/csr2011/environment_2011_performance.aspx.

¹¹ PVH Corporate Responsibility Website, *2011 Performance*, available online at http://www.pvhcsr.com/csr2011/environment_2011_performance.aspx.

¹² PVH Corporation's 10-K Filing. Available online at: http://google.brand.edgar-online.com/EFX_dll/EDGARpro.dll?FetchFilingHTML1?ID=7828144&SessionID=00bcFC9nzzwgc02.

¹³ Charles Goulding, Jacob Goldman, and Christopher Winslow, *The EAct and Alternative Energy Tax Aspects of Walmart's Supplier Sustainability Program*, Corp. Bus. Tax'n Monthly, June 2011, at 13.

¹⁴ Kohl's Cares, Advancing Environmental Solutions. Available online at: <http://www.kohlsreenscene.com/3-SupplyChain/SupplyChain.html>.