

Tax Opportunities for Recovering U.S. Auto Facilities

By Charles R. Goulding, Jonathan Saltzman and Charles G. Goulding

Charles R. Goulding, Jonathan Saltzman and Charles G. Goulding state that U.S. auto manufacturers are currently at a turning point, and, as they begin to restructure, it is important for them to reduce operating costs. One way to reduce these costs is by retrofitting their lighting and HVAC.

After a shaky few years and \$85 billion in government aid, U.S. auto sales are on the rise.¹ Analysts predict that 13.5 to 14 million new cars will be purchased in the United States in 2012, up from 2011's 12.8 million.² The auto industry reopened plants previously shuttered due to the recession and poor auto sales, and existing facilities refitted and retooled existing auto plants. While the industry looks to cut costs and rebuild, attention should be given to the tax opportunities associated with these activities.

Code Sec. 179D Tax Opportunities

Pursuant to Code Sec. 179D, as enacted by the Energy Policy Act of 2005 (EPAAct),³ commercial property owners making qualifying energy-reducing investments in their

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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 Code Sec. 179D \$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; heating, ventilating and air conditioning (HVAC); 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.

Nonconditioned Building Tax Opportunities

The manufacturing facilities presented in the table have a good opportunity to generate very large EPAAct tax deductions. Most industrial building facilities are "nonconditioned," meaning the actual manufacturing portion of the building is typically heated, but not air-conditioned. In these buildings it is the lighting rather than HVAC that makes up the largest portion of energy costs. Accordingly, by combining energy-efficient lighting with energy-efficient heaters at the EPAAct standard level obtaining \$1.20 to \$1.80 EPAAct tax deductions is very achievable.⁴

| Company | Total | Lighting | | HVAC | Building Envelope | Total |
|------------|----------------|-------------------|-------------------|-------------------|-------------------|----------------|
| | Square Footage | Minimum Deduction | Maximum Deduction | Maximum Deduction | Maximum Deduction | |
| GM | 78,335,721 | \$ 23,500,716 | \$ 47,001,433 | \$ 47,001,433 | \$ 47,001,433 | \$ 141,004,298 |
| Ford | 69,894,155 | \$ 20,968,247 | \$ 41,936,493 | \$ 41,936,493 | \$ 41,936,493 | \$ 125,809,479 |
| Chrysler | 47,293,000 | \$ 14,187,900 | \$ 28,375,800 | \$ 28,375,800 | \$ 28,375,800 | \$ 85,127,400 |
| Honda | 10,850,000 | \$ 3,255,000 | \$ 6,510,000 | \$ 6,510,000 | \$ 6,510,000 | \$ 19,530,000 |
| BMW | 5,000,000 | \$ 1,500,000 | \$ 3,000,000 | \$ 3,000,000 | \$ 3,000,000 | \$ 9,000,000 |
| Hyundai | 2,300,000 | \$ 690,000 | \$ 1,380,000 | \$ 1,380,000 | \$ 1,380,000 | \$ 4,140,000 |
| Volkswagen | 1,900,000 | \$ 570,000 | \$ 1,140,000 | \$ 1,140,000 | \$ 1,140,000 | \$ 3,420,000 |
| Totals: | 215,572,876 | \$ 64,671,863 | \$ 129,343,726 | \$ 129,343,726 | \$ 129,343,726 | \$ 388,031,177 |

Cutting Costs

GM recently announced it would be investing \$2 billion in 17 of its U.S. auto plants across eight states.⁵ One of the largest energy costs in manufacturing facilities is lighting. Auto facilities looking to enhance profitability should be considering lighting and HVAC retrofits to reduce operating expenses and increase the bottom line. EAct tax incentives and bonus depreciation make now the time for these retrofits to happen. These large, square-footage-based incentives would make it possible for the industry to potentially deduct the full cost of their retrofits.

What's It Worth?

The major players in the auto industry have over 200 million square feet of floor space that are ripe for the deduction. If an EAct deduction was claimed on all the spaces, the companies could receive up to almost \$400 million in deductions, which represents \$140 million in first-year tax saved. The chart above illustrates the EAct tax deduction potential for large U.S. auto facilities.

Expansion

Several companies based outside the United States have opened and expanded their facilities here. BMW opened their South Carolina facility in the 90s and expanded in 2008–2010. Overall they have spent \$1 billion on their U.S. facilities. These recent additions are excellent candidates for deductions and could be worth millions. Volkswagen recently opened their Chattanooga, Tennessee, auto facility. This Leadership in Energy and Environmental Design (LEED) Platinum certified facility would most probably qualify for a large EAct deduction. Now that foreign auto

companies are expanding in the United States, they need to not only consider things such as location and size, but also the potential tax savings they could realize for building an efficient facility.

Tax Incentivized Energy-Efficient Design Process Steps

The process steps for achieving an energy-efficient warehouse, distribution center or manufacturing facility are presented below:

1. Assemble team including experts for EAct tax incentives, utility rebates, lighting, heater, envelope and solar.
2. See if roof is compatible for solar and heater. Obtain solar and any needed roof/insulation proposals. Make sure existing roof warranties are compatible with solar P.V. installation.
3. Obtain lighting design that replaces all inefficient lighting. Compare and contrast fluorescent, induction and LED lighting alternatives.
4. Obtain Cambridge heater or equivalent design proposal based on proposed roof design.
5. Determine utility rebate based on all proposed separate and combined measures. Lighting will reduce electrical use.
6. Determine tax incentives including EAct tax deduction benefit and solar credit tax deductions. EAct will be based on total project square footage, including mezzanines and pick-and-pack modules. The 30-percent solar tax credit will be based on the combined solar material and installation costs.
7. Prepare project proposal integrating project cost, energy savings, utility rebates and tax incentives.
8. Get project approved.

9. Hire contractors and execute project.
10. Have EAct modeler and tax expert prepare IRS-approved software model and tax documentation.
11. Process utility rebates.
12. Reduce federal and state estimated tax payments for large tax deductions and credits.
13. Celebrate tax-enhanced, energy-efficient building achievement.

Conclusion

U.S. auto manufacturers are currently at a turning point. As they begin to restructure, it is important for them to

reduce operating costs. By retrofitting their lighting and HVAC they can greatly reduce their operating costs while generating tax deductions.

ENDNOTES

- ¹ See <http://abcnews.go.com/Politics/wireStory/obama-plays-auto-industry-success-story-15477137?page=2#.TzEo7uQtrak>.
- ² See www.chicagotribune.com/classified/automotive/autoshow/sns-why-2012-could-be-the-year-of-the-us-auto-ind-20120130,0,7536348.story.
- ³ Energy Policy Act of 2005 (P.L. 109-58).
- ⁴ See Charles Goulding, Daniel Audette and Spencer Marr, *EAct Tax Aspects of Resurging U.S. Manufacturing Investments*, CORP. BUS. TAX'N MONTHLY, Jun. 2011.
- ⁵ See www.bloomberg.com/news/2011-05-10/gm-to-invest-2-billion-in-u-s-plants.html.



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