

## **The LED Lighting and Tax Aspects of Gym Facility Physical Fitness**

*By Charles R. Goulding, Andrea Albanese, and Raymond Kumar*

Energy Tax Savers' analysts look at the EPAct tax opportunities for fitness facilities implementing LED lighting and HVAC control strategies.

**G**ym owners and personal trainers who measure and monitor customer customers weight, body fat, and overall fitness should apply the same thinking to the energy consumption of their facilities.

Once measured against energy fit gyms the energy workout regime should become clear. Like virtually all retailers, gym owners are moving quickly to retrofit with LED lighting by December 31st 2013 to secure large EPAct tax deductions.

### **EPAct Tax Savings Opportunity**

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Pursuant to Code Sec. 179D, as enacted by the Energy Policy Act of 2005 (EPAct)<sup>1</sup>, 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; heating, ventilating and air conditioning (HVAC); 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.

### **LED Lighting**

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Fitness centers should endeavor to install energy efficient long life LED lighting at better of 1 watt or less to qualify

for maximum tax incentive. It is crucial for gyms to be aware of the EPAct lighting tax standard since merely meeting the ASHRAE code requirements of 1.1 watt will result in only a 35% improvement as compared to the ASHRAE 2001 tax reference standard.

### **HVAC Strategies**

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HVAC control strategies in these facilities can greatly reduce operating costs since they have cooling needs before and after normal business operating hours when electricity rates are often measurably lower. For heavy morning use facilities, one strategy would be to cool the facility in the morning before members enter, and utilize that cooling level to cover the higher business hour day-time rates.

For the evening member influx the strategy would be to vamp up the cooling output right after the business day when the lower electric rates kick in (which should be concurrent with evening member influx).

The market has seen a decrease in hard goods manufacturers and an increase in service categories requiring improved and efficient HVAC. Among these service categories are health clubs and gym facilities which can implement highly efficient HVAC technology to reduce operating costs<sup>2</sup>.

The table below presents the EAct tax incentives available for some of the largest fitness chains:

**Largest Fitness Chain EAct Tax Incentives**

Property	Total Square Footage	Lighting		HVAC Maximum Deduction	Building Envelope Maximum Deduction	Total
		Minimum Deduction	Maximum Deduction			
<i>LA Fitness</i> - 505 Locations*	20,200,000	\$ 6,060,000	\$ 12,120,000	\$ 12,120,000	\$ 12,120,000	\$ 36,360,000
<i>24 Hour Fitness</i> - 425 Locations*	17,000,000	\$ 5,100,000	\$ 10,200,000	\$ 10,200,000	\$ 10,200,000	\$ 30,600,000
<i>Gold's Gym</i> - 425 Locations*	17,000,000	\$ 5,100,000	\$ 10,200,000	\$ 10,200,000	\$ 10,200,000	\$ 30,600,000
<i>Life Time Fitness</i> - 104 Locations	9,901,100	\$ 2,970,330	\$ 5,940,660	\$ 5,940,660	\$ 5,940,660	\$ 17,821,980
<i>Planet Fitness</i> - 642 Locations at 15,000 sq ft	9,630,000	\$ 2,889,000	\$ 5,778,000	\$ 5,778,000	\$ 5,778,000	\$ 17,334,000
<i>Anytime Fitness</i> - 2,142 Locations at 4,000 sq ft	8,568,000	\$ 2,570,400	\$ 5,140,800	\$ 5,140,800	\$ 5,140,800	\$ 15,422,400
<i>Powerhouse Gym</i> - 151 Locations*	6,040,000	\$ 1,812,000	\$ 3,624,000	\$ 3,624,000	\$ 3,624,000	\$ 10,872,000
<i>Town Sports International</i> - 171 Locations**	4,250,000	\$ 1,275,000	\$ 2,550,000	\$ 2,550,000	\$ 2,550,000	\$ 7,650,000
<i>Equinox</i> - 61 Locations*	2,440,000	\$ 732,000	\$ 1,464,000	\$ 1,464,000	\$ 1,464,000	\$ 4,392,000
<i>Crunch</i> - 58 Locations**	1,450,000	\$ 435,000	\$ 870,000	\$ 870,000	\$ 870,000	\$ 2,610,000
<i>Fitness 19</i> - 158 Locations at 8,000 sq ft	1,264,000	\$ 379,200	\$ 758,400	\$ 758,400	\$ 758,400	\$ 2,275,200
<b>Total:</b>	<b>95,303,100</b>	<b>\$ 28,590,930</b>	<b>\$ 57,181,860</b>	<b>\$ 57,181,860</b>	<b>\$ 57,181,860</b>	<b>\$ 171,545,580</b>

**Healthcare Plans Reward Wellness**

A large number of healthcare plans are incentivizing health and wellness program participation. Offering as much as 50% gym membership reimbursement, companies like Aetna Cigna, United Healthcare, BlueCross Blue Shield, and Tufts are bringing more and more members into fitness facilities.

Employer wellness programs are also incentivizing physical fitness by offering discounts for maintaining and/or achieving health standards. This is becoming increasingly popular as a study has shown “average employer medical costs falling \$3.27 for each dollar spent on wellness and a \$2.73 reduction in employer costs associated with absenteeism”.<sup>3</sup>

Many of the employer wellness programs provide incentives based on certain health standards that need to be met. Annual discounts are awarded to employees with cholesterol levels below 200

and annual deductibles are waived for employees with a BMI (body mass index) at or below 26<sup>4</sup>.

Both of these health standards can be met through fitness regimens and with the influx of the insured taking advantage of the membership reimbursement, it is even more important for gym facilities to become energy efficient.

**Fitness Facilities in the Market**

In addition to healthcare companies, there are many others that have been working towards providing tools and methods for increased health, particularly for obesity. Fitness and weight-loss centers play a large role in creating a healthier America and can benefit greatly from simultaneously lowering energy costs and utilizing accompanying Federal tax incentives.<sup>5</sup>

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<sup>1</sup> Energy Policy Act of 2005 (P.L. 109-58).

<sup>2</sup> "The HVAC Tax Aspects of Post-Internet Retail Stores", Charles R. Goulding, Andrea Albanese, and Raymond Kumar, To be published in Corporate Business Taxation Monthly.

<sup>3</sup> "Employers: Get Fiscally Fit with Wellness Programs", John DiNome, Forbes 'The Employment Beat', February 28, 2013.

<sup>4</sup> "Wellness Incentive Programs", Sabrina Corlette, American Cancer Society, Cancer Action Network, Accessed at:  
<http://www.acscan.org/pdf/healthcare/implementation/background/WellnessIncentivePrograms.pdf>

<sup>5</sup> "The EPAct Tax Aspects of Obesity Solution Companies", Charles R. Goulding, Andrea Albanese, and Daniel Audette, ETSI Publishing, August 2012.