

# Wismarq Light Company, Inc.

Customer Advisory  
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## New Deduction Available for Energy Efficient Commercial Building Property

The Energy Tax Incentives Act of 2005, H.R. 6, Title XIII, creates a new deduction for energy efficient commercial buildings either placed in service or improved for energy efficiency during a taxable year. The deduction provides an incentive for commercial property owners to upgrade the energy efficiency of their existing buildings and to design new energy efficient buildings.

### Allocation of the Deduction

The owner of the commercial building property is generally allowed a deduction for an amount equal to the cost of "energy efficient commercial building property" placed in service during the taxable year.

For energy efficient commercial building property installed on or in property owned by a Federal, State or local government, or a political subdivision thereof, regulations will be promulgated to allow an allocation of the deduction to the person primarily responsible for designing the property in lieu of the owner of such property.

### Amount of the Deduction

The deduction is generally limited to the amount of energy efficient commercial building property placed in service during the year up to the square footage of the building multiplied by \$1.80, less deductions taken with respect to the property in prior years. If the building does not meet certain efficiency standards (as discussed below) the amount of the deduction may be limited to \$0.60 per square foot based on the efficiency of individual building systems. The amount of the deduction for any building cannot exceed \$1.80 per square foot for all current and prior years.

### Definition of "Energy Efficient Commercial Building Property"

In order to qualify for the full \$1.80 per square foot deduction, the property must be:

- 1) installed in a building located in the United States;
- 2) otherwise depreciable or amortizable;
- 3) within the scope of Standard 90.1-2001 of the American Society of Heating, Refrigerating, and Air Conditioning

Engineers and the Illuminating Engineering Society of North America;

4) installed as part of the interior lighting, HVAC or hot water systems, or the building envelope;

5) certified as part of a plan designed to reduce the total annual energy and power costs with respect to the interior lighting systems, heating, cooling, ventilation, and hot water systems of the building by 50 percent or more in comparison to a reference building which meets the minimum requirements of Standard 90.1-2001.

Detailed certification requirements must be met in order to qualify for the deduction. Regulations are expected in the future to explain how energy savings targets are to be measured.

### Partial Allowance of Deduction

If the commercial building does not meet the overall certification requirement for 50 percent energy savings with respect to Standard 90.1-2001, then a partial deduction may be allowed if a separate building system (i.e. interior lighting, HVAC, hot water or building envelope systems) would satisfy the efficiency requirement. The deduction for the building with a qualifying system is \$0.60 per square foot. Regulations will be issued to determine appropriate targets for each system for energy efficiency to meet the statutory requirement. The new code section specifies that in general a lighting system must have a reduction in lighting power density of 25 percent under Standard 90.1-2001 in order to qualify.

### Reduction in Basis

If a deduction is allowed under the new section 179D with respect to an energy efficient commercial building, the basis of the building is reduced by the amount of the deduction allowed.

The provision is effective for property placed in service after December 31, 2005 and prior to January 1, 2008.

**Customers should consult with their tax advisors and not rely on this advisory.**