



Religious Organizations Can Now Benefit from the Section 179D Energy Efficient Commercial Buildings Tax Deduction for Making Energy-Efficient Upgrades to Their Buildings

In August 2022, President Biden signed into law the Inflation Reduction Act (“IRA”). The IRA is expected to make the largest federal investment in climate and clean energy policy, with an estimated \$270 billion dollar investment through clean energy tax incentives.

Due to changes in the IRA, religious organizations can now benefit from several tax credits and deductions, including the section 179 energy efficient commercial buildings tax deduction for installing or upgrading their buildings with new energy-efficient equipment. Religious organizations considering new construction or renovations should consider upgrading their HVAC systems, heating, windows, roofing, or other equipment to claim the section 179D tax deduction. These energy efficiency upgrades not only reduce emissions, but also can lower monthly water, heat, and electric bills.

Section 179D Provides a Tax Deduction for Energy-Efficient Improvements

Section 179D provides a tax incentive for organizations that build new energy-efficient buildings or renovate existing buildings to improve the building’s energy efficiency. Organizations can claim the tax deduction for investing in improvements for the building’s heating, lighting, insulation, HVAC systems, hot water, roof, walls, or windows.

To claim the section 179D tax deduction, the investments must improve the overall building’s energy efficiency by at least 25% against a baseline model. The amount of the deduction is based on the square footage of the building multiplied by the applicable amount and an increased deduction is available for projects that pay workers the prevailing wage and use registered apprentices. Unlike tax credits claimed as a direct payment, taxpayers do not need to register with the IRS to claim the section 179D tax deduction. To claim the credit, the organization must obtain a third-party certification regarding the percentage of the efficiency improvement:

- **\$0.50 per square foot:** 25% energy reduction in the overall building
 - An extra \$0.02 is available for each percentage point above 25% up to \$1.00
- **\$1.00 per square foot:** 50% or more energy reduction in the overall building
- **\$2.50 per square foot:** 25% energy reduction in the overall building plus prevailing wage and apprenticeship requirements
 - An extra \$0.10 is available for each percentage point above 25% up to \$5.00

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- **\$5.00 per square foot:** 50% or more energy reduction in the overall building plus prevailing wage and apprenticeship requirements

Religious and Other Tax-Exempt Organizations Can Assign the Tax Deduction in Exchange for Lowering the Cost of the Project

Under changes in the IRA, tax-exempt organizations, including religious organizations, that make eligible investments can assign the section 179D deduction using an “allocation letter” to assign the deduction to the project’s designer (typically the project’s architect or engineer) who then can claim the tax deduction. In exchange for assigning the tax deduction, the designer, architect, or engineer will typically lower the overall cost of the project to reflect the tax benefit.

Before the IRA, only government entities were able to use an allocation letter to assign the section 179D tax deduction to the project’s designer. The IRS has not yet issued guidance on this expansion included in the IRA, but it is expected to be similar to the existing allocation letter process for government entities.

The Section 179D Deduction Can Now Be Claimed Once Every 3 Years on a Specific Building

Before the IRA, the section 179D deduction could only be claimed once over the life of the commercial building. In addition to the increased amount of the deduction now available, religious organizations can claim the section 179D deduction once every three years on a specific building.