



# *Federal Tax Incentives for Buildings & Renewables*



# CAPSTAN

our strength. your tax savings.

We are Federal tax incentive consultants comprised of engineering, financial, and tax experts.

Our mission is to make claiming the Federal incentives easy for project teams, building owners, and developers.

- Cost Segregation
- R&D Tax Credit
- 179D - Energy-Efficient Tax Deduction
- Investment Tax Credits



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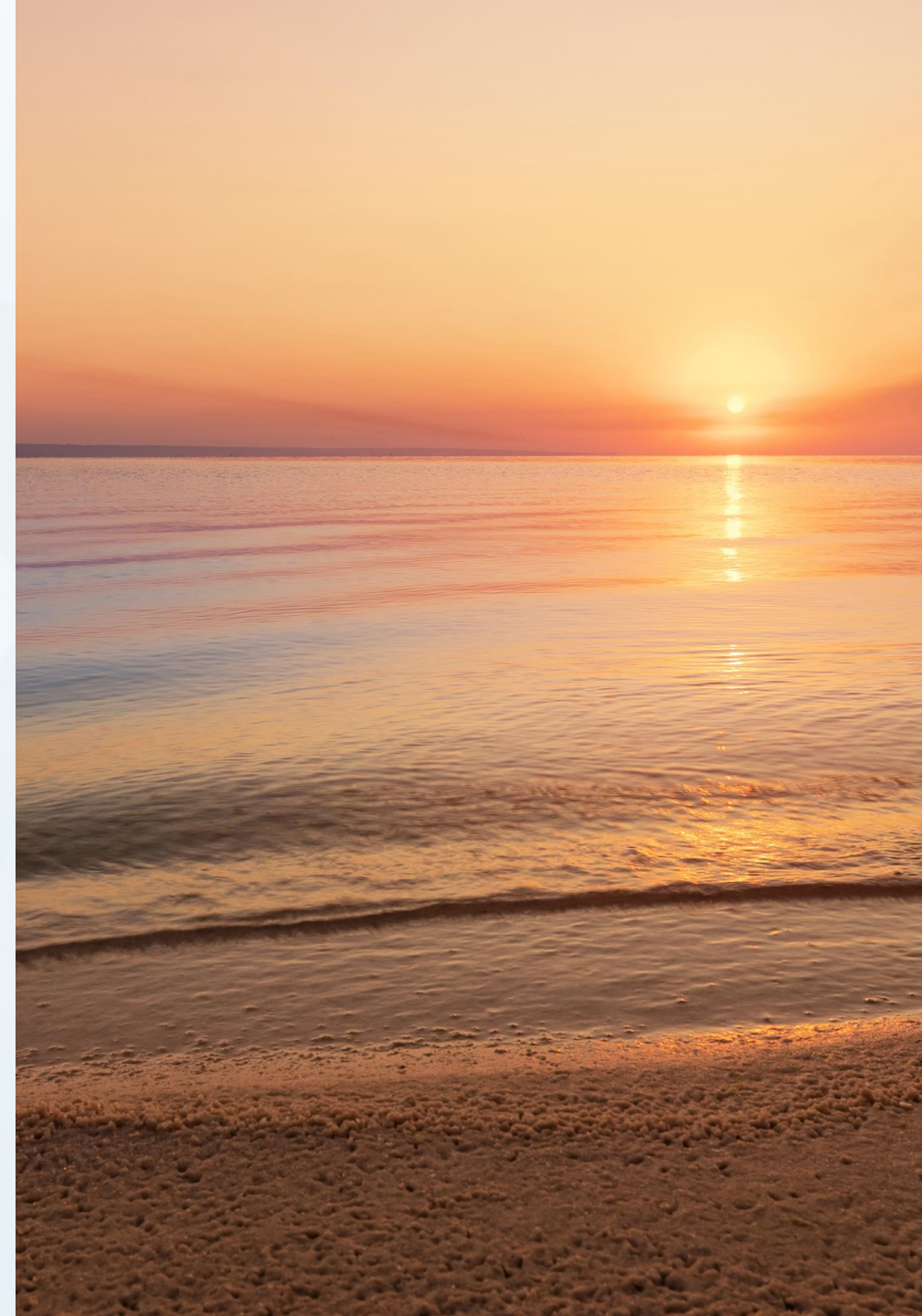
- B.S. in Civil Engineering from Purdue University
- Engineer licensed in 47 states
- Spent ten years in building design and forensics
- Delivered thousands of energy incentive studies near \$1 billion in total tax incentives

# Introduction

- OB3 offers new opportunities while limiting others
- Will need to strategically plan to maximize incentives – timing will be everything
- Proactive planning with clients now so they can leverage relevant provisions
- Additional guidance – and perhaps additional, modifying legislation -- is likely

## OB3: A Little Context for these “Sunsets”

- Historically, energy incentives phase out and renew, phase out and renew
- This is business as usual
- The OB3 has not eliminated any incentives, has just established future sunset dates that may or may not be honored, depending on future legislation
  - Solar and wind in particular are likely to be revisited
  - 179D too – it was kind of caught in the crossfire
- Don't panic – there is opportunity ahead



## Our Focus Today:

Investment  
Tax Credits

179D  
Deduction

R&D Tax  
Credits

Cost  
Segregation

The background features a photograph of a modern, multi-story apartment building with balconies and large windows. The image is overlaid with several large, semi-transparent geometric shapes: a white triangle on the left, a large blue triangle in the center, and an orange triangle on the right. The text 'Investment Tax Credits' is centered in white over the blue triangle.

# Investment Tax Credits

# The Investment Tax Credit (ITC)

- Credit available for renewable energy property and select heating/cooling technologies such as geothermal and thermal storage
- Up to **30%** base credit with the availability to get add-on credits for the below categories:
  - » Energy Community
  - » Domestic Content
  - » Low-Income Community (application)
- Tax-exempt and government organizations are eligible to claim through elective pay process



# The Investment Tax Credit (ITC)

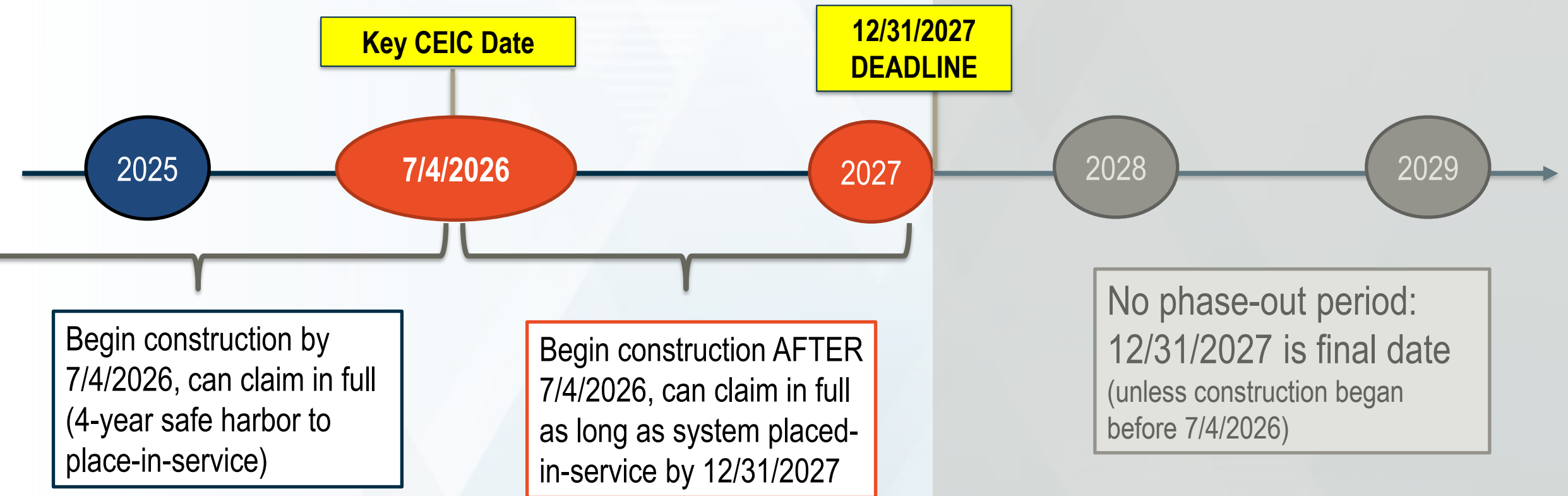
- Federal program, but many states have one as well
- One-time dollar for dollar tax credit
- Claimed by the business that installs, develops, and/or finances the renewable system
- Two versions of the credit in play:
  - ITC: Construction begun before 1/1/2025
  - CEIC: Construction begun on/after 1/1/2025
- **Under OB3, terminates 12/31/2027 for solar & wind**
  - Unless construction commenced by 7/4/2026 – then have 4- year safe harbor to get system into service



# How is Beginning of Construction (BOC) Defined for CEIC?

- In past, relied on Notice 2022-61:
  - Physical Work Test **OR**
  - 5% Safe Harbor
- Notice 2025-42 released 8/20/2025, changes the definition for wind and solar projects that begin construction on/after September 2, 2025
  - Physical Work Test
  - ~~5% Safe Harbor~~ is ELIMINATED
    - Except for small solar projects with a nameplate capacity less than/equal to 1.5 MW
  - Along with Physical Work Test, must establish “continuous program of construction” – maintains the 4-year safe harbor available to projects that begin construction before 7/4/2026

# ITC | CEIC Timing Under OB3 for Solar/Wind\*



\*Timeline doesn't apply to any other eligible technologies

# First “Annual Table” of CEIC-Eligible Technologies (Rev. Proc. 2025-14, January 2025)

## REV. PROC. 2025-14 TABLE 1

### GREENHOUSE GAS EMISSIONS RATES

(Effective beginning on January 15, 2025, and until the effective date of a subsequent Annual Table.)

#### Type or Category of Facility

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Wind  
Hydropower  
Marine and Hydrokinetic  
Solar  
Geothermal  
Nuclear fission  
Fusion energy  
Waste energy recovery property\*

#### Greenhouse Gas Emissions Rate

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Not Greater than Zero  
Not Greater than Zero  
Not Greater than Zero  
Not Greater than Zero  
Not Greater than Zero  
Not Greater than Zero  
Not Greater than Zero  
Not Greater than Zero

\* Waste energy recovery property that derives energy from a source that is a type or category of facility described in this table.

# Bonus Add-Ons Boost Credit Benefit

## *Domestic Content Bonus*

- All structural steel or iron products used were produced in US, and a “required percentage” of total costs of manufactured products were mined, produced, or manufactured in US
- The required percentage does change under the OB3, effective 6/16/2025
  - 40% if construction begins before June 16, 2025;
  - 45% if construction begins after June 16, 2025, & before Jan. 1, 2026;
  - 50% if construction begins during 2026; and
  - 55% if construction begins after Dec. 31, 2026.

[Companies that use elective pay must comply with domestic content to qualify for *any* credit if the project began construction after 12/31/25]



# Bonus Add-Ons Boost Credit Benefit

- *Energy Community Bonus*
  - Brownfield site
  - Census tract in which a coal mine closed after 1999 or a coal-fired electric generating unit was retired after 2009
  - An area that, after 2009, had a 0.17% or more direct employment or 25% or more local tax revenues related to the extraction, processing, transport, or storage of coal, oil, or natural gas, and has an unemployment rate at or above the national average for the previous year
  - Can increase CEIC rate by 10% to 40%
- *Low Income Bonus (for projects under 5MW)*
  - Only solar or wind can qualify
  - Limited funds to be disbursed – need to be ready to submit application in Q1
  - Low-income communities or communities on Indian Land – may be eligible for additional 10% CEIC
  - “Qualified low-income residential building project” or “qualified low-income economic benefit project” – may be eligible for additional 20% CEIC

# Total Credit Potential

	Project Size	
	<1 MW (284 Tons)*	>1 MW (284 Tons)
Base Credit	30%	6%
Add-on Credits		
Domestic Content	10%	2%
Energy Community	10%	2%
Low-Income	10% - 20%	10% - 20%
<b>Total</b>	<b>70%</b>	<b>30%</b>

*\*Projects that meet PW&A requirements are also eligible for the bonus rates*

# Notice 2022-61: Details on Prevailing Wage

- Provisions apply to facilities for which construction starts on/after **1/30/2023**
  - May rely on Physical Work Test or 5% Safe Harbor to determine construction start date
- Mechanics and laborers must be paid no less than prevailing wages required for federal work
  - Exact wage will vary by location and job description
  - [www.sam.gov](http://www.sam.gov) lists prevailing wage for most locations and labor classifications, and Notice says taxpayers can rely on this as guidance
- Taxpayers will substantiate PW&A on New Form 7220



# Notice 2022-61: Details on Apprenticeship Requirements

- Apprenticeship Labor Hour Requirements: Must use qualified apprentices for certain minimum % of total hours worked

<b>Construction Begins</b>	<b>% of Total Labor Hours By Apprentice</b>
Before 1/1/2023	10%
In 2023	12.5%
After 12/31/2023	15%

- Apprenticeship Participation Requirements: If 4 or more individuals are employed in a construction project, one or more qualified apprentices must also be employed
- Good Faith Exemption – if you really can't find anyone...
- Taxpayers will substantiate Apprenticeship Requirements on New Form

# Elective Pay Process


- Permits tax-exempt and government entities to claim federal energy credits as a check from the U.S. Treasury
- Must pre-register each property with IRS, then get registration number needed to file
- Once receive registration number, claim Credit on a *timely filed return*
  - May request 6-month extension by filing Form 8868 by original filing due date



# Solar Panels CEIC/Cost Seg

- Taxpayer invested \$1M in solar panels in 2025
- Project capacity was <1MW, so can claim 30% Credit without meeting PW&A requirements
- CEIC Credit = \$300K
- PLUS, accelerated and bonus depreciation yielded by contemporaneous cost seg study
- Depreciable basis of solar panels =  
$$\$1\text{M} - 1/2 (300,000) = \$850,000$$





# Section 179D Energy Efficient Commercial Buildings Deduction

# 179D Deduction

- Applies to all types of commercial buildings
- Residential rental properties also eligible, though they must be 4 or more stories
- Available for new construction and renovated buildings (energy retrofit)
- Best claimed in year of construction, but may be claimed retroactively by owners (3115)
  - Designers can claim in the year of construction of via amending a prior return
- Benefit determined by:
  - Square footage – bigger is better
  - Hypothetical cost savings vs. a benchmark facility
  - Prevailing Wage and Apprenticeship (PW&A) requirements

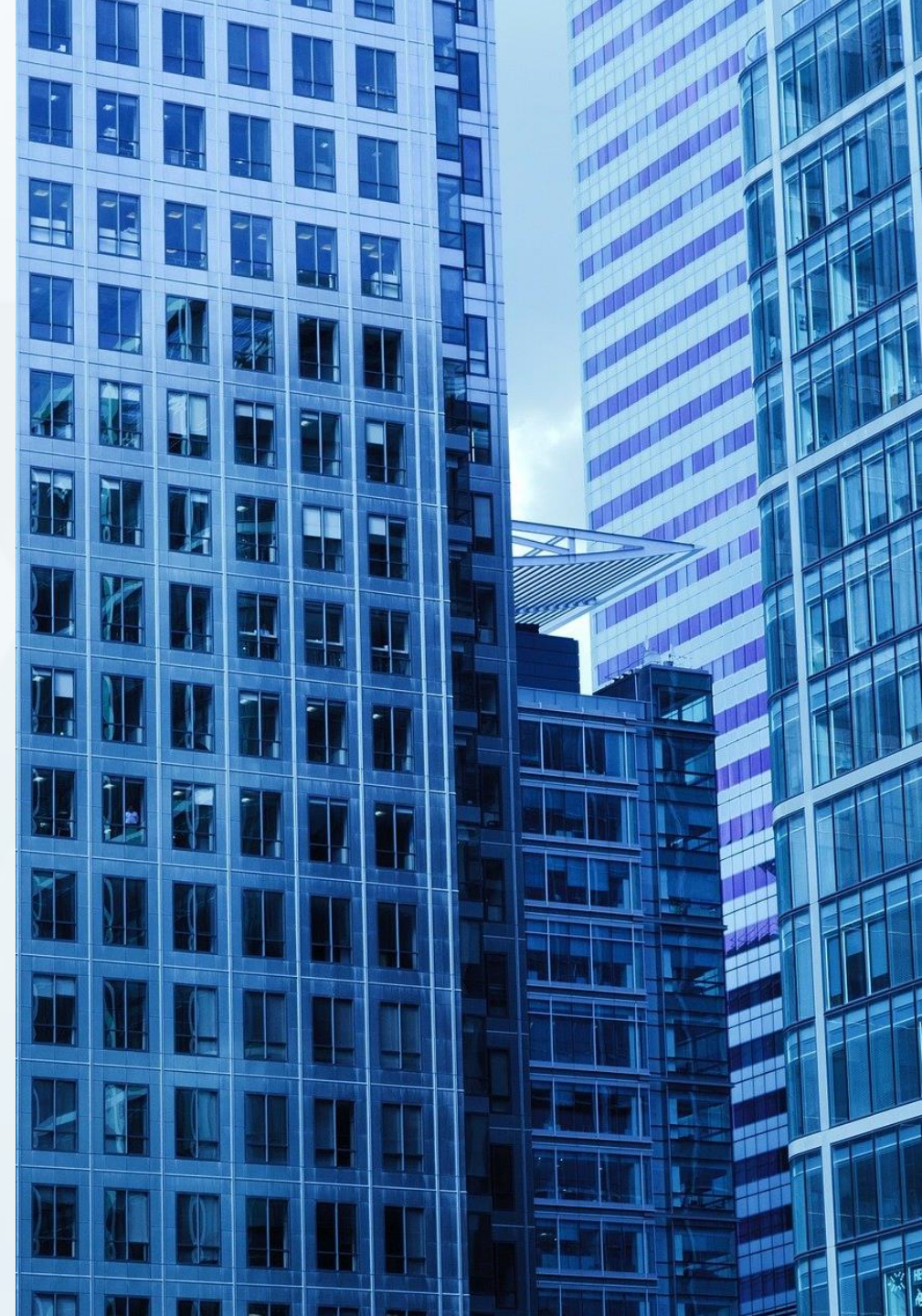
# 179D Deduction Under OB3

- Under OB3, terminates for properties beginning construction after 6/30/2026
  - As long as some construction commences by 6/30/2026, can still claim incentive
  - Doesn't have to be *substantial* construction, don't have to incur at least 5% of project cost – any construction counts
- Still have several months to break ground on projects in the pipeline, have time to get shovel-ready
- Still in play for projects currently in construction and for look-back studies
- 179D has been around for 20 years – and for all but 3 of those years, it's been part of an extenders package
  - This isn't the end of 179D, it just means we're back to piecemeal extensions



# 179D Deductions: The Candidates

- Size of property matters-- buildings of at least 10,000 square feet
- Renovation and new construction projects
- Regional and national chains with multiple locations
- New digitized technologies in play too – advanced building controls, high efficiency chillers
- Specific Types of Energy-Efficient Projects
  - Geothermal
  - Thermal storage
  - Central chiller plants with small buildings(<150,000SF) on campus
  - LED-lighting upgrades
  - Roof replacements
- LEED-certified buildings



# 179D Under the IRA (2023-Beyond): The Standards

Must demonstrate a minimum 25% reduction in energy cost savings vs benchmark standard

Placed-in-Service Date	ASHRAE Standard
Through 12/31/2026	ASHRAE 90.1 - 2007
2027, 2028	ASHRAE 90.1 - 2019
2029	ASHRAE 90.1 - 2022

# 179D Under the IRA (2023-Beyond): Deduction Value Depends On...

Whether  
Contractor Pays  
Prevailing Wages

Efficiency Increase Over Baseline	Deduction Amount* (Without PW&A)	Deduction Amount* (WITH PW&A)
25% (Minimum needed to qualify)	\$0.50/SF	\$2.50/SF
30%	\$0.60/SF	\$3.00/SF
35%	\$0.70/SF	\$3.50/SF
40%	\$0.80/SF	\$4.00/SF
50% (Maxes out)	\$1.00/SF	\$5.00/SF

% of Energy Saved

\*Amounts will be adjusted annually for inflation

# New Construction Midrise Multi-Family (Urban)

- 6-stories, 124,468 SF
- 99 units, variety of configurations
- LEDs
- Variable Refrigerant Flow (VRF) heat pump units with supplemental electric heaters
- High-efficiency DX/gas-fired rooftop units (RTUs) for common areas
- Condensing domestic hot water boilers



# Example: Benefit Will Vary Based on Timing and PWA

	<b>Timing</b>	<b>Max Benefit/SF</b>	<b>Total Project Benefit</b>
<b>Grandfathered In</b>	Construction Started BEFORE 1.30.2023	\$5.00/SF	\$622,340
<b>PW&amp;A Requirement Met</b>	Construction Started AFTER 1.30.2023	\$5.00/SF	\$622,340
<b>PW&amp;A Requirement NOT MET</b>	Construction Started AFTER 1.30.2023	\$1.00/SF	\$124,468

(rates will adjust for inflation)

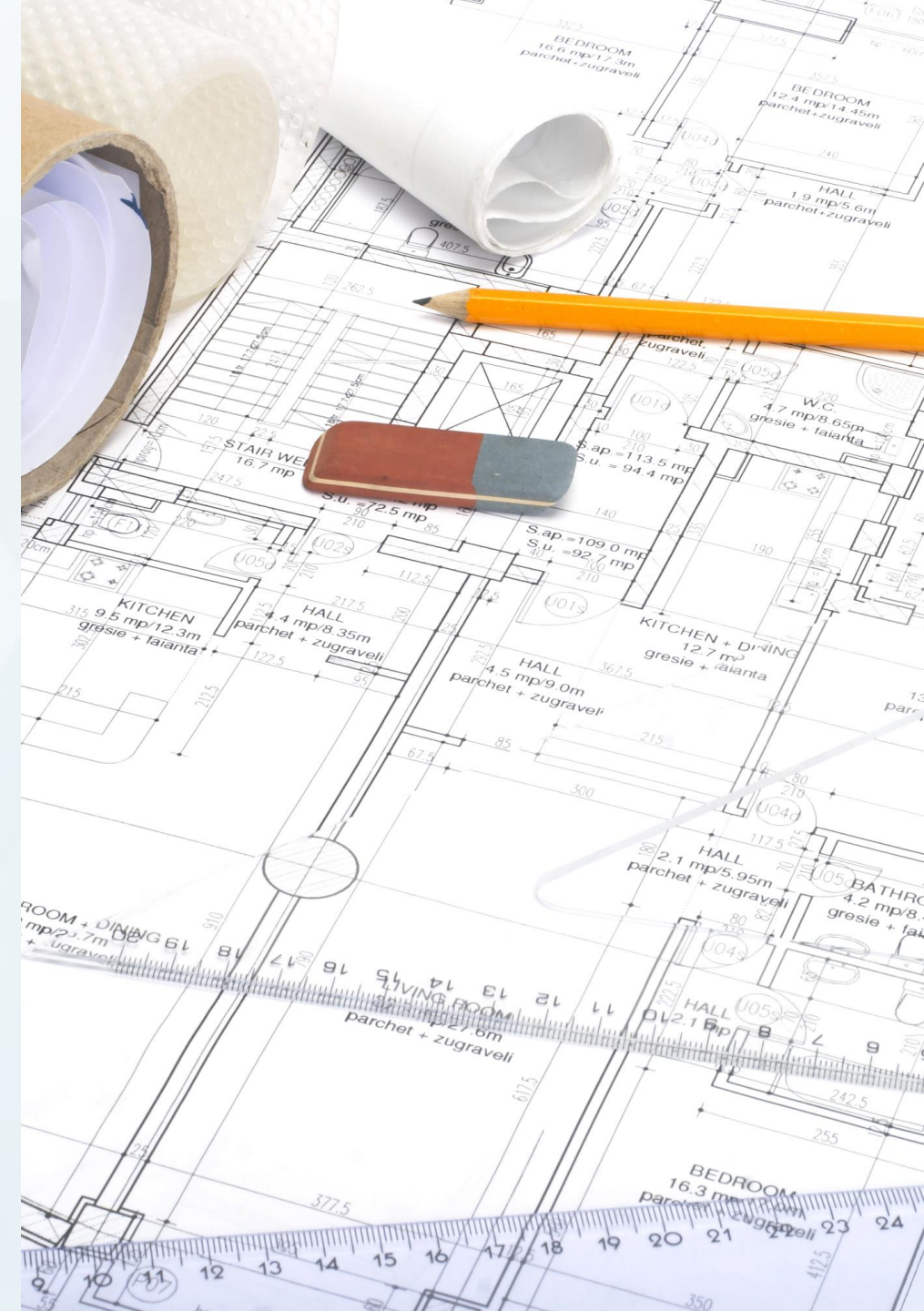
# Government Buildings Are GREAT Candidates

- US Government (Federal, State, Local) is the largest owner of commercial real estate in the nation
  - In 2018, \$302B was spent on new government construction projects
- 179D Deduction can be transferred to design professionals of these properties – usually architects, engineers
  - Huge potential benefits for a designer – an owner would have to reduce his basis by the amount of the deduction, but the designer does not
  - The deduction dollars can't be claimed directly, but are transferred through an "Allocation Letter" to the architect/engineer



# Government Buildings Are GREAT Candidates

- To qualify as a design professional:
  - You are the person primarily responsible for designing the EECBP
  - You created the technical specifications for installation of the EECBP within a government-owned building
  - The government building owner provided you a written statement allocating the deduction to you
- There can be more than one qualifying design professional on a project



# 179D Under the IRA (2023-Beyond): *Tax-Exempt Entities Are Great Candidates*

- In addition to designers of government buildings, now the deduction can also be taken by designers of tax-exempt entities like:
  - Religious and charitable organizations
  - Private schools
  - Native American tribal governments
  - Non-profit organizations



# Case Study:

## Designer Claiming 179D Under IRA

### ■ Facts

- Renovation of part of state university system – classrooms, study and meeting spaces, lounge
- Placed-in-Service Date: February 2023
- Building Size: 33,960SF
- Designer: Electrical construction and engineering firm

### ■ Results

- Able to claim deduction of \$5.36/SF
- Total Deduction: \$182,026
- Actual Tax Savings (assuming 30% rate): \$54,607



# Deduction Reset

Under the Legacy program, 179D was a one-time deduction

Deduction Reset Under the IRA:

- May be taken once every 3 years on a commercial building
- May be taken once every 4 years on a building owned by a tax-exempt entity

Will encourage building owners to continually execute energy-efficiency projects

Will be very beneficial for multiphase long-term projects

# Future of 179D

- Current Termination Date
  - Projects that begin construction after June 30<sup>th</sup>, 2026
- Historically
  - 179D was a non-permanent incentive from 2006-2020, relying on a 2-year extension
  - 2021-2025 179D was made permanent (IRA)
  - 2026 was made a non-permanent incentive (OB3)
- What's Next?
  - Likely to go back on a 2-year extension at the end of the year

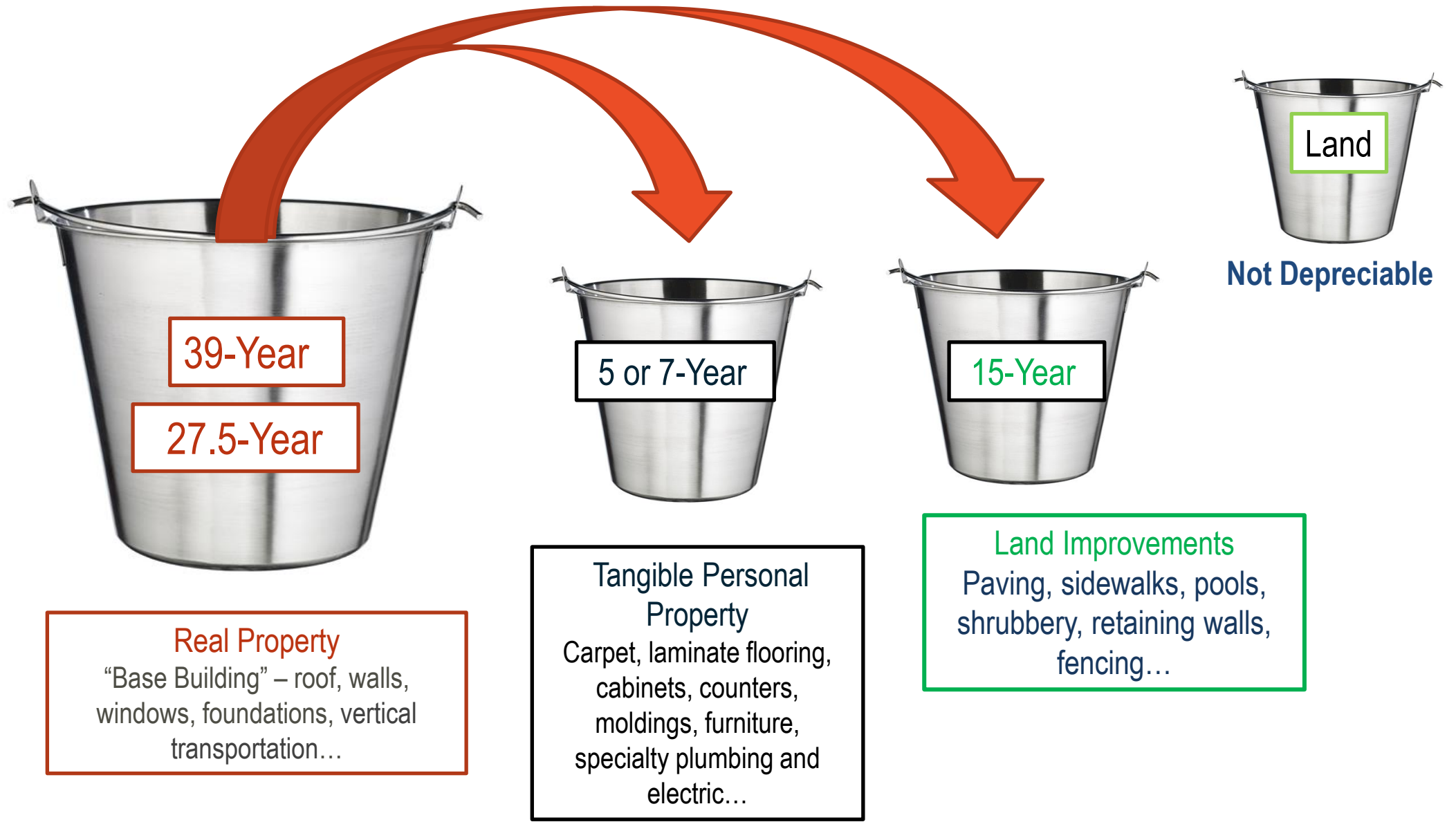


# Cost Segregation

*The Vehicle for Real Estate Tax Savings*

# What is Cost Segregation?

- Forensic, engineering-based analysis of real estate
- Commercial property typically uses 27.5 or 39-year lives
- IRS allows certain assets to be depreciated using shorter lives – 5, 7, or 15-yr
- By carving out, or segregating, the assets with shorter lives, depreciation of those assets may be accelerated
- Accelerated depreciation → tax deferral → increased cash flow
- Remember: In cost seg, depreciation isn't increased, it's accelerated





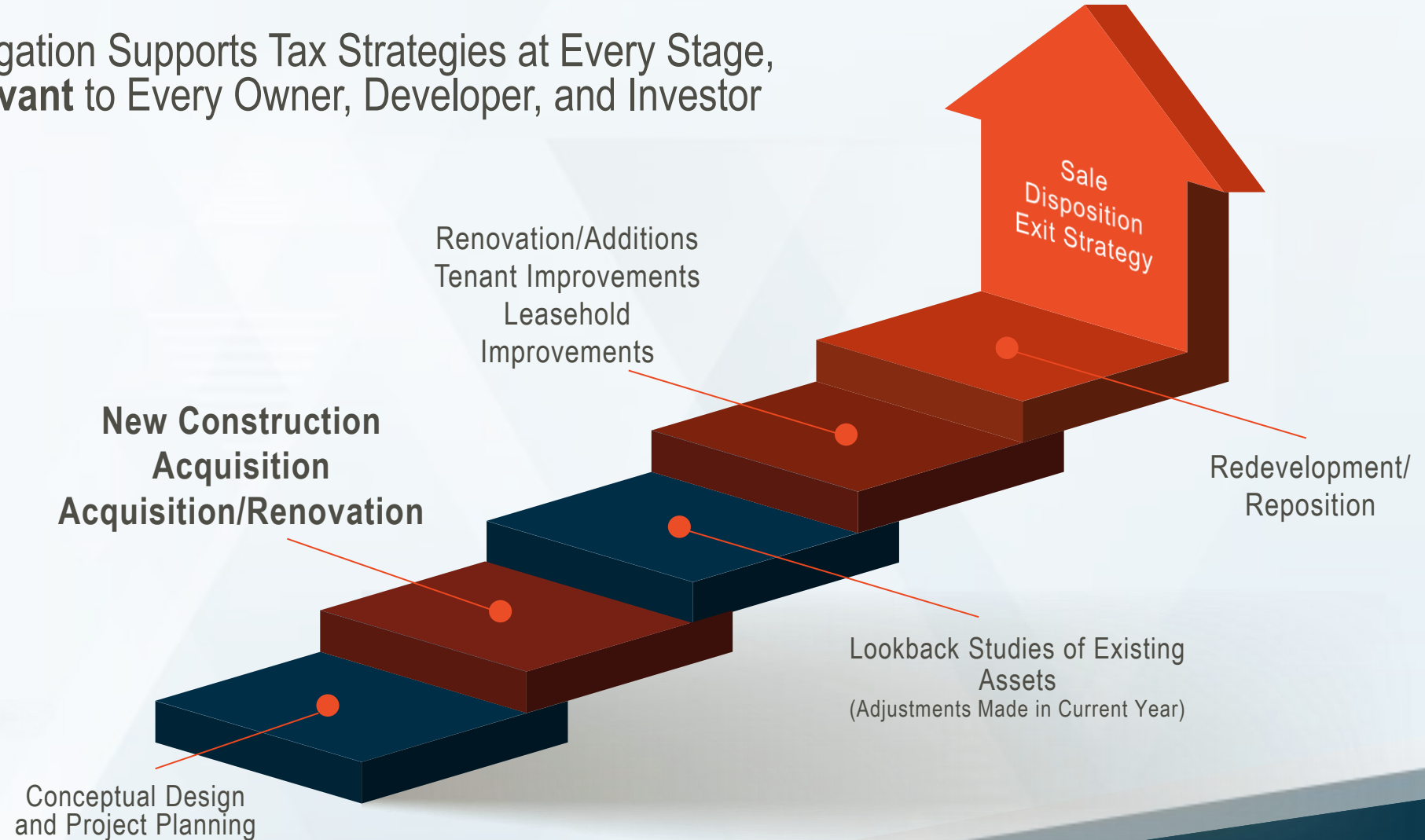
**CAPSTAN**  
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# Life Cycle of Real Estate

Cost Segregation Supports Tax Strategies at Every Stage, and is **Relevant** to Every Owner, Developer, and Investor

## GOALS

- Accelerate Depreciation
- Maximize Bonus Depreciation
- Expense vs. Capitalization Decisions
- Maintain Accurate Record of Fixed Assets for TPR Compliance
- Dispositions



# Car Wash

- Single lane drive-thru, customer waiting area, multiple payment kiosks
- Large parking lot with 28 vacuum cleaners
- Depreciable Basis: \$4,409,094
- Placed-in-Service: April 2024
- First Year Tax Savings:

**\$963,268**



# Hotel

- Placed-in-service in 2023
- 13 stories with fitness center, laundry, restaurant, meeting rooms, parking lot, 211 rooms
- Depreciable Basis: \$55,659,744
- First Year Tax Savings?

**\$4,352,708**



# Urban High-Rise Apartments

- 312 Units over 27 Stories
- Indoor and Roof Lounges
- Fitness Center
- Depreciable Basis: \$146,831,160
- First Year Tax Savings?

**\$5,816,618**





# Bonus Depreciation:

*Further Boosts Cost Seg Savings*

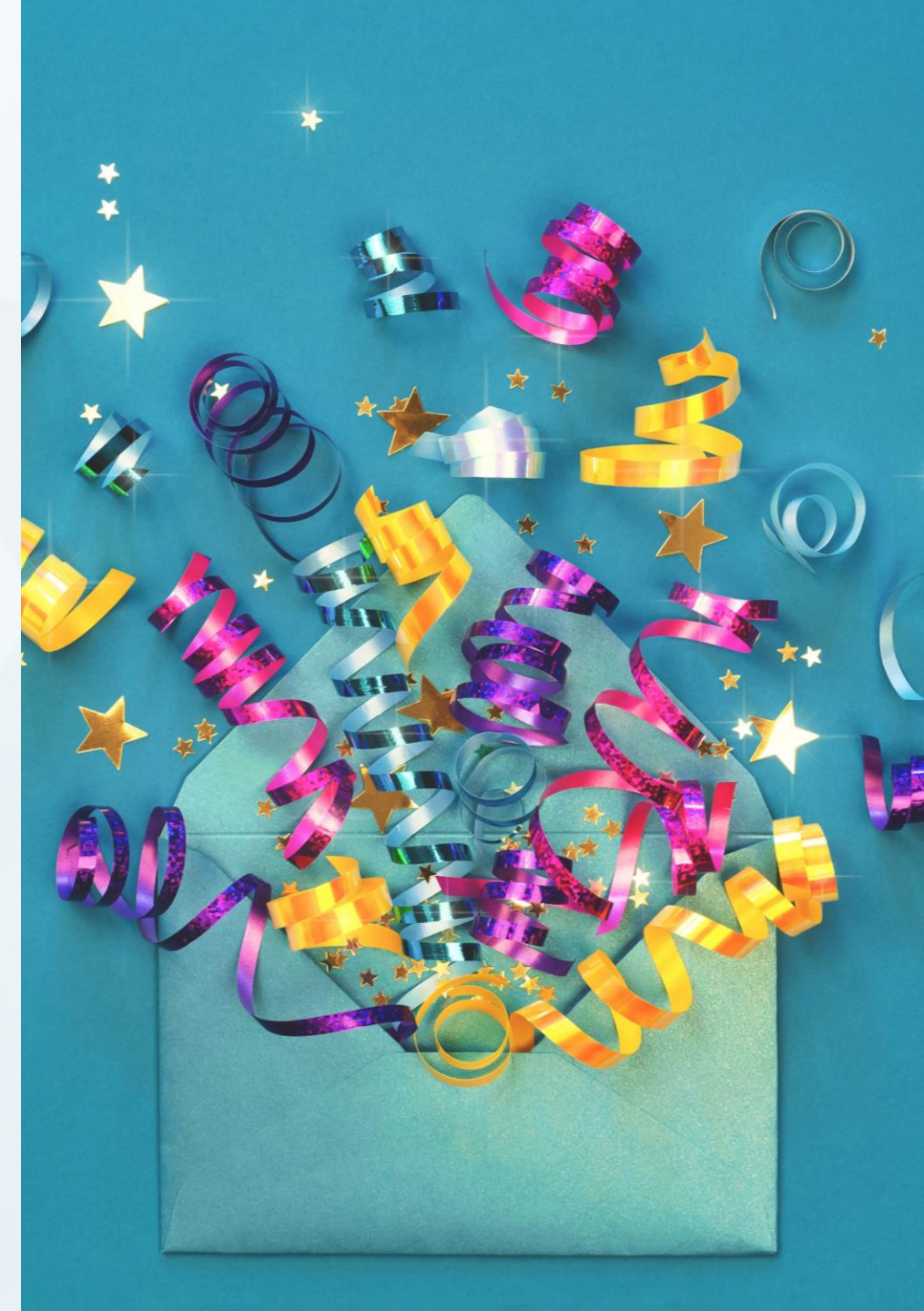
# Bonus Depreciation

Year	Bonus Value
9/28/2017-12/31/2017	100% (50% election)
1/1/2018 – 12/31/2022	100%
2023	80%
2024	60%
2025	40%
2026	20%

- Tax incentive in play on-and-off since 2001
- An **ADDITIONAL** incentive on top of accelerated depreciation
- Permits the immediate write-off of a percentage of the cost of eligible assets in the year it was placed-in-service
  - The percentage is determined by the bonus rate
- To be eligible for bonus depreciation, asset must have a MACRS class life of 20 years or less
- Bonus rates varied for years, and were steadily declining under the old tax law

# Recent Tax Law BOOSTS Cost Segregation

- Under the One, Big Beautiful Bill Act (OB3), **the bonus depreciation rate is 100%** for properties placed-in-service on/after 1/20/2025
- **100% bonus is PERMANENT** moving forward



# What Does 100% Bonus Mean?

- Large Garden-Style MF Property
- Newly Constructed and Placed-in-Service 1/1/2025 – 40% Bonus
- Depreciable Basis: \$37.4M
- Engineers Moved:
  - 18.5% of Assets into 5-Year
  - 7.0% of Assets into 15-Year

Bonus Rate	First Year Tax Savings
100% Bonus NEW LAW	\$3,142,872

But if it had been placed-in-service under the new law...



# Qualified Improvement Property (QIP)

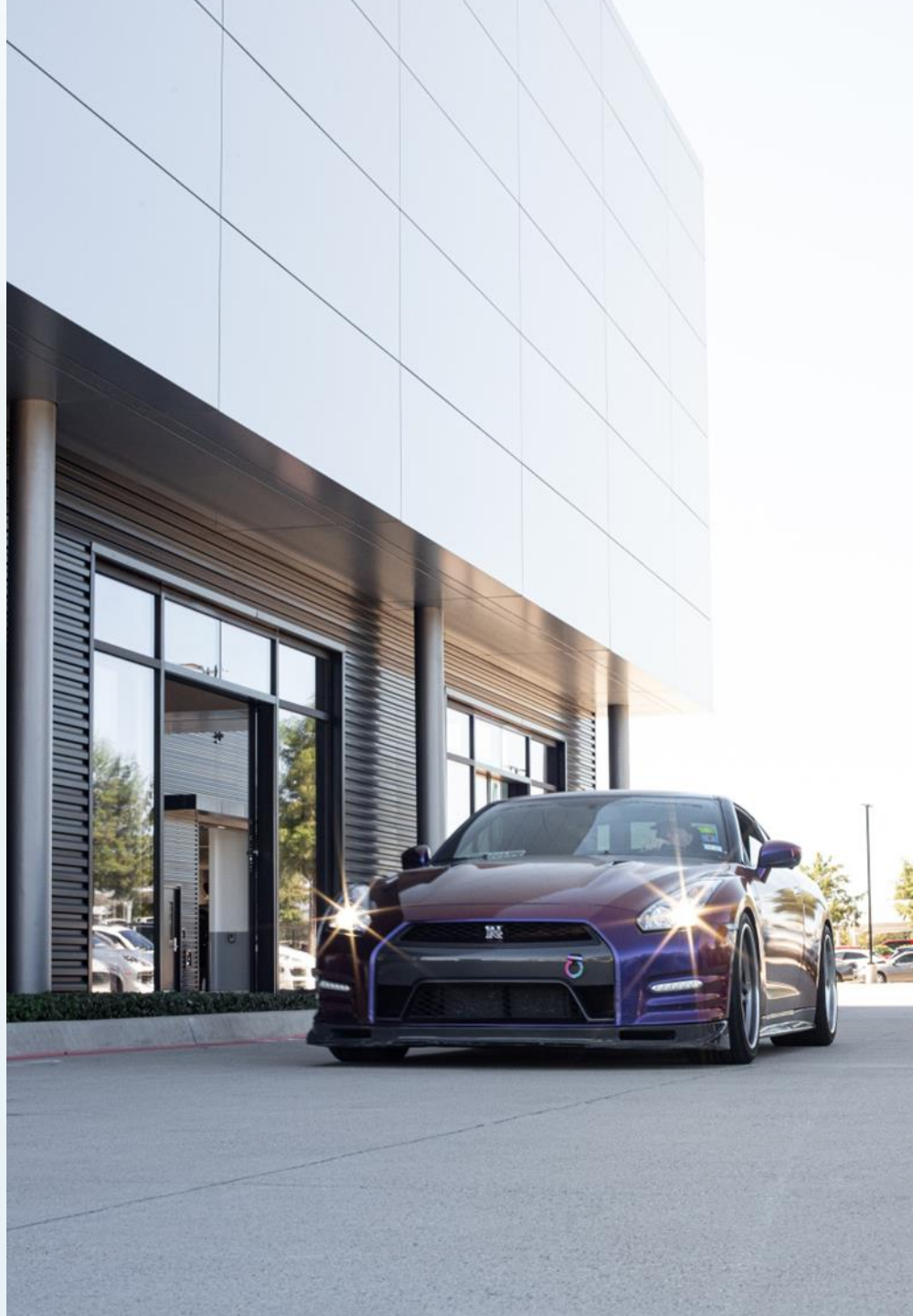
- Another incentive that may come into play in **renovation scenarios**
- Can be *another* source of benefit *on top of* accelerated depreciation and bonus
- Broad Definition: *any* improvement to an interior portion of a building which is nonresidential real property, as long as the improvement was placed-in-service after the date the building was first placed-in-service by any taxpayer.
- A cost segregation study is needed to identify and quantify QIP
- **QIP is eligible for bonus depreciation** – the boost to 100% makes cost seg in renovations even more powerful

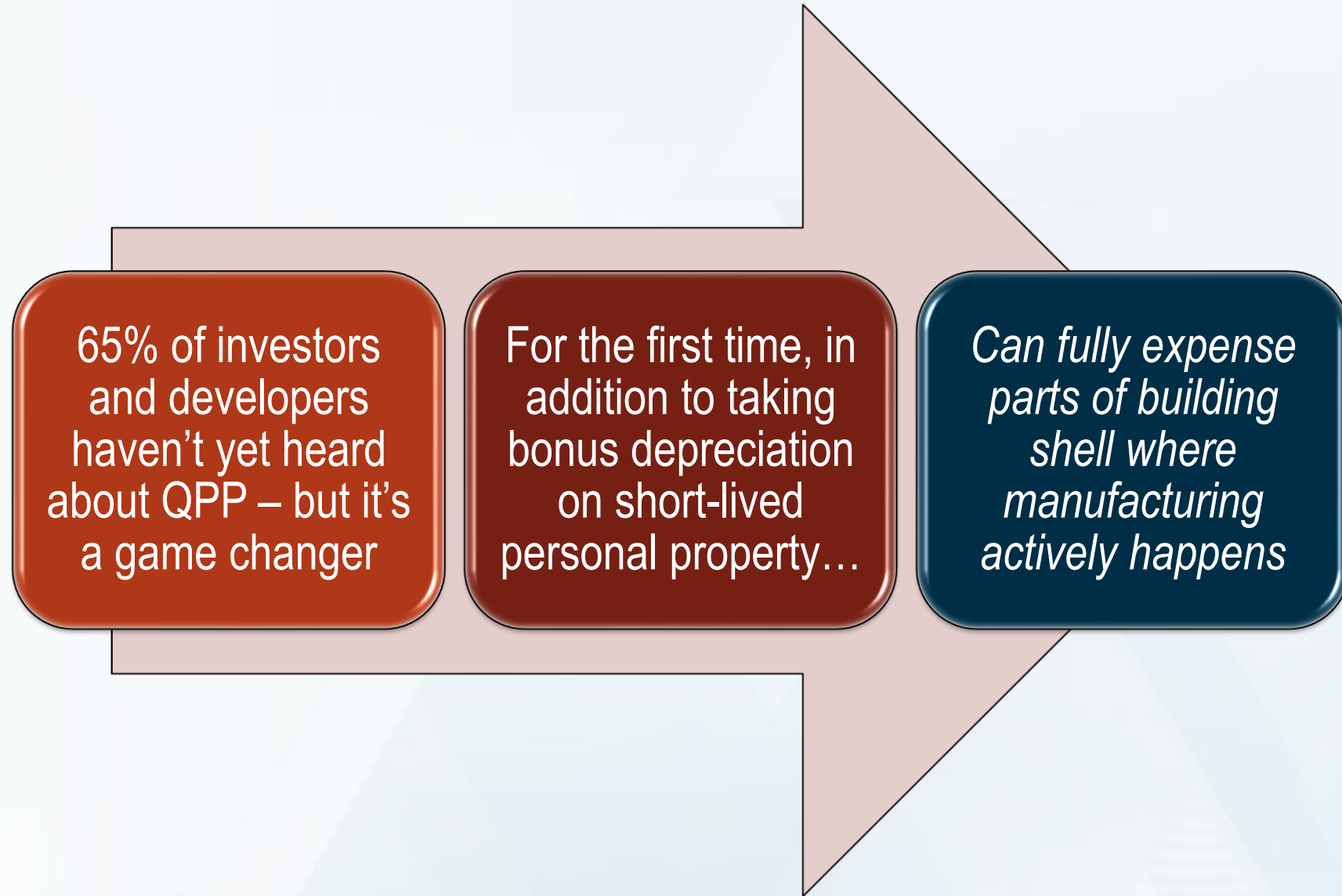
# 100% Bonus Makes QIP More Powerful

- Auto Dealership
- Renovated façade and interior – showroom, offices, lounge
- Depreciable Basis: \$3.25M
- Placed-in-Service 1/1/2025 – 40% Bonus
- Engineers Moved:
  - 8.4% into 5-Year
  - 3.8% into 15-Year
  - 28.4% into 15-Year QIP

Bonus Rate	First Year Tax Savings
100% Bonus on QIP NEW LAW	\$447,547

But if it had been placed-in-service under the new law...





*Huge win for domestic manufacturers, supply-chain operators, and those that invest in them*

# Newly Constructed Biomedical Facility

- Depreciable Basis: \$175M
- Engineers Moved:
  - 18.0% into 7-Year
  - 5.0% into 15-Year
  - 65% into QPP
- First Year Tax Savings: **\$52.5M**





# R&D Tax Credits

*Get Paid for the Innovative Work You're Already Doing*

# Credit Basics

- Activities-based Credit yielding a dollar-for-dollar reduction in tax liability
- Activity in virtually any industry can qualify
- Qualified Research Activities + Qualified Research Expenses = R&D Tax Credit
- Credit can add up quickly – **for every \$1M of QREs, Federal Credit may be up to \$100K**
- Can be retroactively captured (standard 3-year window for amending returns applies)
- May be carried back one year, and then carried forward for 20 years
- Can be used to offset income tax at corporate or pass through level

# What Companies Make Good Candidates for the R&D Credit?

The company employs technical job titles, such as engineers, architects, chemists, designers, or lab techs

The company creates goods

The company mass produces items

The company develops software

The company designs buildings

The company holds patents

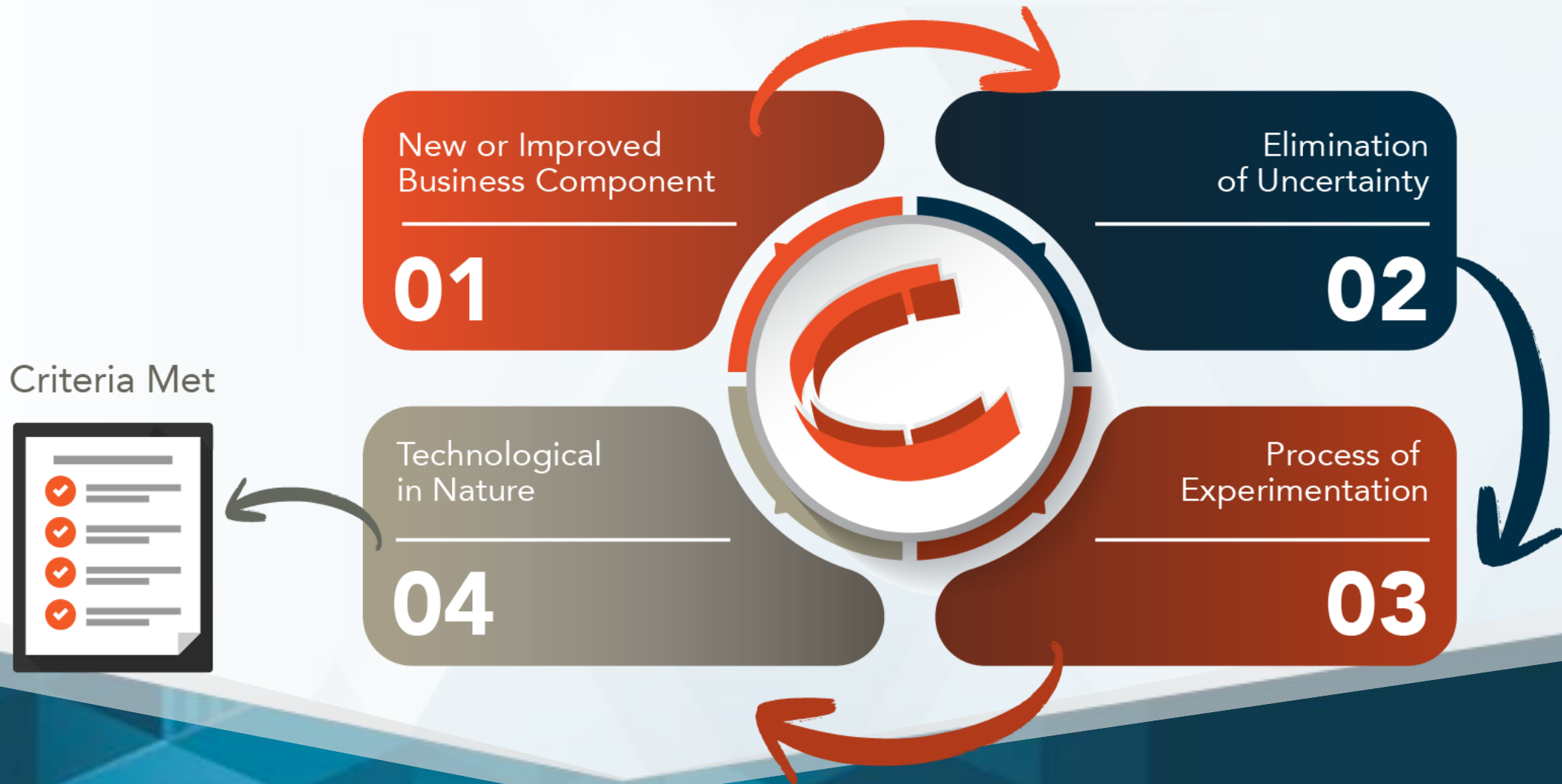
The company is upgrading technology or implementing new equipment

The company sends their products out for testing

The company's products have to meet certain standards (energy efficiency, tolerances, building codes, etc.)

# The Four-Part Test:

*If Your Research Meets All 4 Criteria, It's Eligible for Credit*



# Qualifying Research Expenses (QREs): Expenses Related to QRAs That Can Qualify for the Credit



# Custom Plastic Manufacturing

- Product development, vacuum forming, CNC machining, product sub-assembly and completion
- QREs:
  - Wages: \$3,284,014
  - Supplies: \$558,040
  - Total: \$3,842,054
- **Federal R&D Tax Credit: \$259,721**
- **Plus, additional IN State Credit: \$231,422**
- **Total Federal and State Credit: \$491,143**



# Software Development

- App development, database integration, testing
- QREs: Wages only -- \$1M
- Federal Credit: \$100K
- Looked back to the last 3 TYs and they qualified then too
  - In 2024, can claim the \$100K for 2024, and another \$100K retroactively for 2023, 2022, 2021
  - **Federal First Year Credit = \$400K**
  - And any unused credits will carry forward up to 20 years
- Plus potential for additional State Credit...



# Final Thoughts

- The OB3 has enhanced tax strategies like never before
- 100% bonus for personal property is permanent – can incorporate into planning
- QIP and QPP bring additional benefit
- R&D Tax Credit powerful, permanent, and in play in every industry
- Energy incentives still very much on the table
- These strategies are engineering-based – it's crucial to have resources you can trust

# Thank You!

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