



Inflation Reduction Act Overview
And Impacts on Real Estate

Today's Panelists



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Topics For Discussion



45L Tax Credits

Housing Units

Extension and
Expansion



179D Deduction Changes and Expansion

Industry
Application

Allocation Letters



IRS Expansion, R&D Credits



Prevailing Wage Requirements

179D Summary

2006-2022

- Commercial building owners
- Designers of buildings owned by
 - Governmental entities

2023 and Later

- Commercial building owners
- REIT's
- Designers of buildings owned by:
 - Government entities
 - Not-for-profit organizations
 - Churches and other religious organizations
 - Tribal governments or Alaska Native Corporations



179D Summary – Tax Deduction

2006-2022

- Interim Rules at .60 cents/sqft federal tax deduction for:
 - Interior Lighting
 - HVAC and hot water systems
 - Envelope (roof and windows)
- OR
 - Whole Building \$1.80/sqft
- Applicable to New Construction and retrofits of commercial buildings and high-rise (4+stories) multi-family projects.
- The deduction can be claimed retroactively up to three years.

2023 and Later

Base Deduction:

- Sliding scale starting at .50 cents/sqft
- for energy savings of 25%,
- Allows an additional .02 cents/sqft for each % above 25%.
- Up to \$1/sqft for energy savings of 50% or greater

Bonus deduction (prevailing wage/apprenticeship):

- Sliding scale starting at \$2.50/sqft
- For energy savings of 25%
- Allows an additional .10 cents/sqft for each % above 25%
- Up to \$5/sqft for energy savings of 50% or greater

179D Summary – Tax Deduction

Efficiency Gain Over Baseline	Deduction Amount “Base Rate”	Labor Standards “Bonus Rate”
25 % (minimum)	50 cents per sf ²	\$2.50 per ft ²
30%	60 cents per sf ²	\$3.00 per ft ²
35%	70 cents per sf ²	\$3.50 per ft ²
40%	80 cents per sf ²	\$4.00 per ft ²
50% (maximum)	\$1.00 per sf ²	\$5.00 per ft ²

179D Summary

2020-2022

- ASHRAE 90.1 -2007 or the standard from 2 years prior to the start of construction.
- Lifetime cap was in place.

2023 and Later

- Most recent of ASHRAE 90.1-2007 or the most recent ASHRAE Standard approved by the Secretary of the Treasury 4 years prior to the building being placed in service.
- Three-year cap which allows a taxpayer to claim the deduction every three years if/when improvements have been made to increase efficiency. (4 years for governmental, tribal and non-profits)
- Currently new construction must “model” at least 25% more efficient over the ASHRAE 90.1 (2016) baseline to qualify for an incentive on the sliding scale. (see next slide)

Bonus Deduction – Prevailing Wage and Apprenticeships

Requires projects to meet certain labor requirements

To qualify for the bonus deductions, projects must:

1. Pay “prevailing wages” to laborers or mechanics employed by the taxpayer or contractor/subcontractor that install equipment and
2. Satisfy “apprenticeship” hiring requirements (10 % of hours in 2022, 12.5%in 2023 and 15% in 2024).
 1. Taxpayers, contractors or subcontractors that employ four or more individuals will be required to employ at least 1 or more qualified apprentices
 2. Also, must comply with applicable apprentice-to-journeyworker ratios.
 3. Taxpayers can be deemed as satisfying the requirement if they make a good faith effort to request qualified apprentices from a registered apprenticeship program that is denied, or a program fails to respond within five days of such a request.



Qualified Retrofit Plans Replaced Interim Rules

A positive change for retrofits”

Allows a retrofit baseline: the buildings own specific level of pre-retrofit site energy usage intensity (EUI) rather than the longstanding ASHRAE comparison.

- Building must be 5 years or older
- Must have a qualified retrofit plan in place by a professional engineer or architect
- Deduction can only be claimed after one year in service and results of the plan are achieved and verified
- “Final certification” must be made one year after implementation

179D REIT Expansion

Beginning January 1, 2023

- Real Estate Investment Trusts (REIT)
 - Earning and profits “fix”
 - 179D deduction reduces E&P in year of installation (previously required 5-year carry period)
 - REIT’s and shareholders can thus receive more immediate financial benefit.

**“REIT’s own approximately
\$4.5 Trillion in gross real
estate assets”**

Section 48 Investment Tax Credit

Types or Projects

“Energy Property” covered by current law: solar to generate electricity for heating or cooling; fiber-optic solar to illuminate the inside of a structure; “small wind” and microturbines; geothermal used to produce electricity; geothermal heat pumps to heat or cool a structure; fuel cells; waste recovery; and combined heat and power. IRA adds: energy storage (including thermal energy storage); dynamic glass; microgrid controllers; biogas property; and linear generators.

Credit Amount

6% of the cost of the Energy Property (“Base Rate”).

Can scale up to 30% of cost (“Bonus Rate”) if project pays prevailing wages and meets apprenticeship requirements for the duration of the project’s “construction.” Except for microturbines: 2% “Base Rate” and 10% “Bonus Rate.”

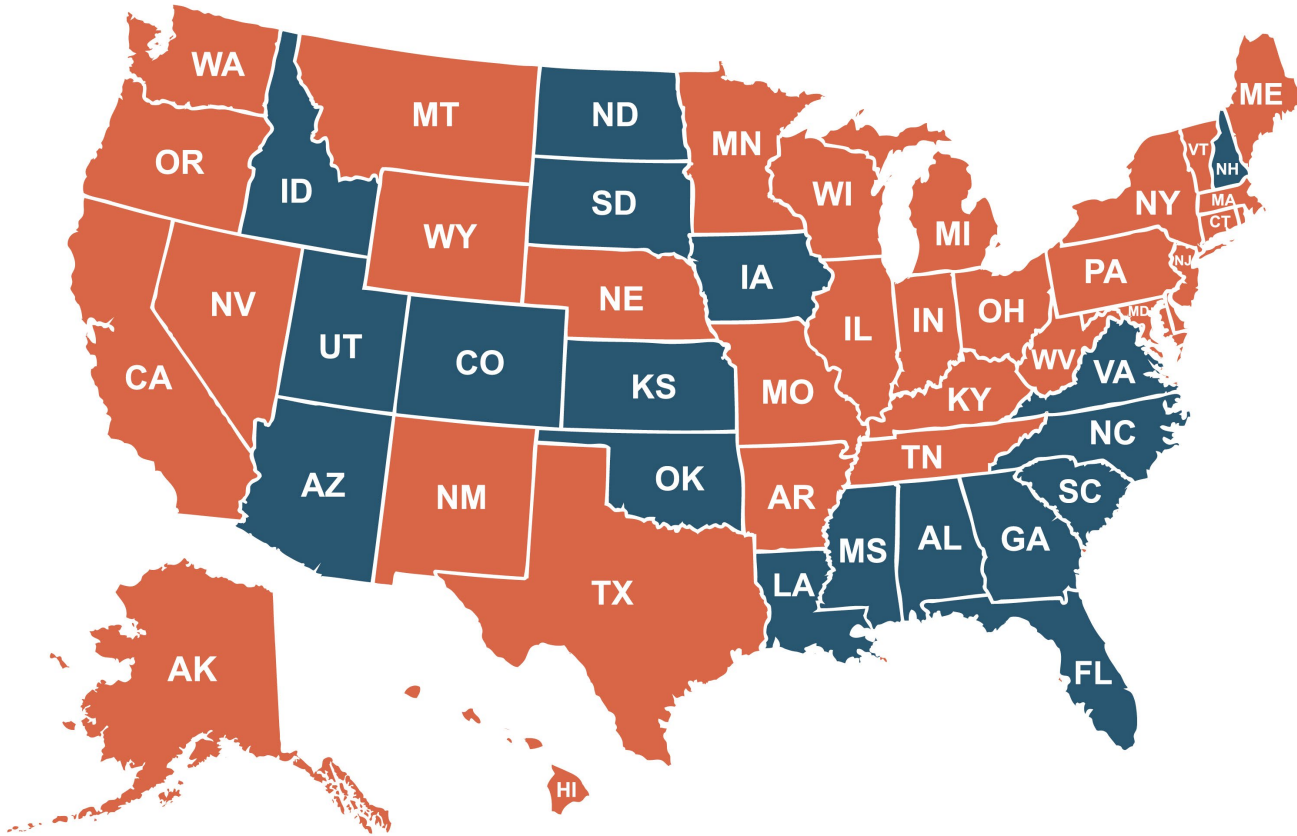
Credit amount can be increased by 2%/10% if project meets “domestic content requirements” (i.e., materials are made in the USA).

Credit amount can be increased by 2%/10% if project is located in an “energy community” (i.e., Brownfield site, census tract—or immediately adjacent tract— where a coal mine closed after Dec. 31, 1999, or coal-fired electric plant was retired after Dec. 31, 2009).

Solar Panels will now be considered
in the energy model of 179D and 45L

- Inflation Reduction Act of 2022

Prevailing Wage Map



Prevailing Wage States

Non-Prevailing Wage States

List of State Wage Thresholds

Table 1: Dollar Threshold Amount for Contract Coverage under State Prevailing Wage Laws

State	Threshold Amount	State	Threshold Amount
Alaska	\$2,000	Nebraska	None
Arkansas	\$75,000	Nevada	\$100,000
California	\$1,000	New Jersey	\$2,000 \$14,187 if the work is done for municipality
Connecticut	\$400,000 for new construction \$100,000 for remodeling		
Delaware	\$100,000 for new construction \$15,000 for remodeling	New York	None
Hawaii	\$ 2,000	Ohio	\$78,258 for new construction \$23,447 for remodeling
Illinois	None	Oregon	\$25,000
Indiana	\$150,000	Pennsylvania	\$25,000
Kentucky	\$250,000	Rhode Island	\$1,000
Maine	\$50,000	Tennessee	\$50,000
Maryland	\$500,000	Texas	None
Massachusetts	None	Vermont	\$250,000
Michigan	None	Washington	None
Minnesota	\$25,000 where more than one trade is involved \$2,500 where a single trade is involved	West Virginia	None
		Wisconsin	\$25,000
Missouri	None	Wyoming	\$25,000
Montana	\$25,000		

Prevailing Wage Map

Table 2: State Changes to Threshold Amounts, Comparison of 2006 and 2010

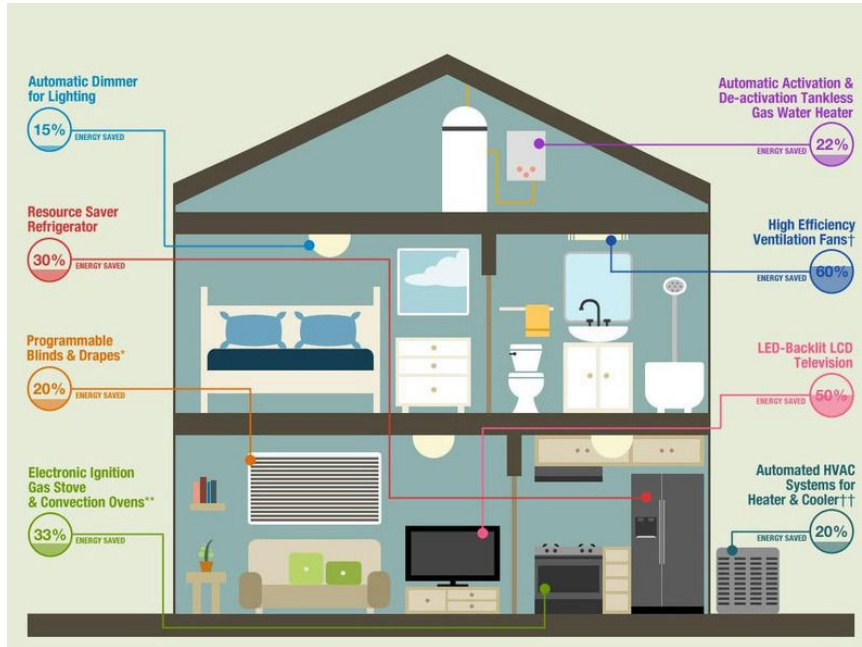
State	2006 Threshold Amount	2010 Threshold Amount
New Jersey	\$2,000 \$10,743 if the work is done for municipality	\$2,000 \$14,187 if the work is done for municipality
Ohio	\$67,853 for new construction \$20,955 for remodeling	\$78,258 for new construction \$23,447 for remodeling
Oregon	\$25,000	\$50,000
Vermont	\$100,000	\$250,000
Wisconsin	State and Municipal Contracts \$209,000 where more than one trade is involved; \$43,000 where a single trade is involved State highway Contracts None	\$25,000 Prevailing wage rates also apply to private enterprise dominated projects if local governments are responsible for at least \$1 million of the project's funding

45L Tax Credit - 2022

- \$2,000 tax CREDIT per unit
- Appropriations Bill Retroactive Extension
- Units Leased or Rented in 2018-2022
- Energy Efficient Residential Homes and Multi-Family Units 3 Stories or Less
- Developers, Builders, Investors
- Requires 3rd Party Testing and Cert.



45L Tax Credit - 2022



- New Construction
- Major Renovations
- Unit-By-Unit Qualification
- Based on Unit Original Sale or Lease Date
- Passes Through to Investors
- Required Blower-Door Test
- Pre-Qualification Recommended



45L IRA Changes

Any Multi-Family and Residential

- Buildings could potentially claim BOTH 179D and 45L Credits
- Residential Units (no height limit)
- Mixed-Use must be >50% residential
- Must meet both National and Regional EPA requirements
- Per Unit Credit
- Will not reduce basis for LIHTC's

For multifamily homes constructed after 2022, the Act provides a 45L tax credit of \$500 when meeting the ENERGY STAR Single Family New Homes Program or \$1,000 when meeting the DOE Zero Energy Ready Home requirements. If prevailing wage requirements are also satisfied, the credit for multifamily homes increases to \$2,500 or \$5,000, respectively. The table below summarizes the 45L Credit rules beginning in 2023.

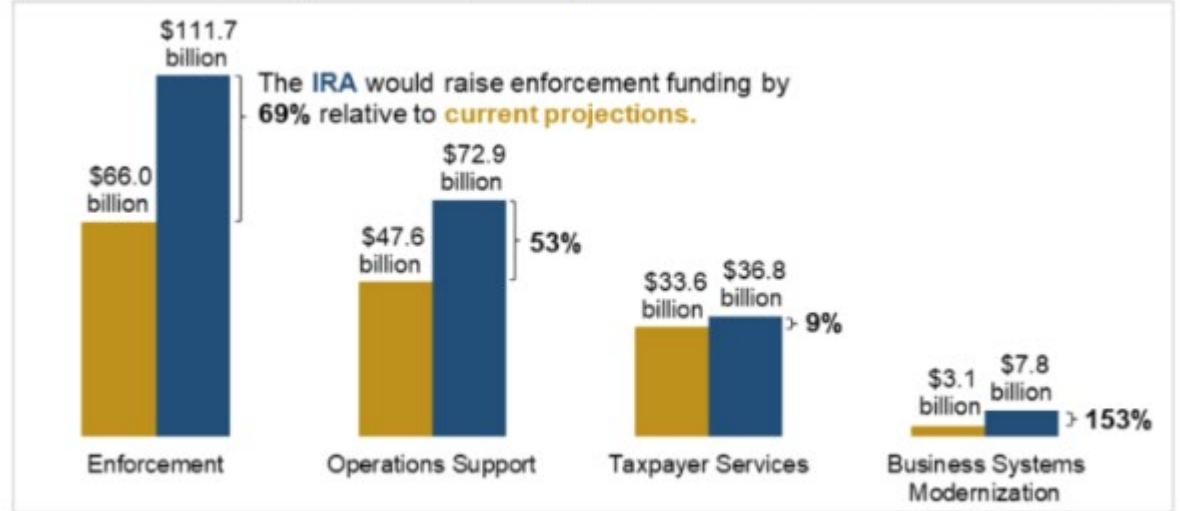
Home Type	Qualification Requirement	Prevailing Wage Requirement	Credit Amount
Single Family*	EnergyStar	No	\$2,500
Single Family*	ZERH	No	\$5,000
Manufactured Home	EnergyStar	No	\$2,500
Manufactured Home	ZERH	No	\$5,000
Multifamily	EnergyStar	No	\$500
Multifamily	ZERH	No	\$1,000
Multifamily	EnergyStar	Yes	\$2,500
Multifamily	ZERH	Yes	\$5,000

*Single Family includes site-built and modular single family homes, duplexes and townhomes.

IRS Expansion & Impact

- 87,000 new auditors (double current size)
- Technology & E-File
- Audit rate <1% currently
- Enforcing:
 - Conservation Easements
 - Crypto
 - Entities

Figure 1. The IRS's Budget Authority Through FY2031 Under the Inflation Reduction Act



Source: Congressional Budget Office; Part 3 of Title I, Subtitle A of the Inflation Reduction Act.

Note: Assumes no change in base appropriations.

Other Provisions in the IRA

R&D Tax Credit Expansion for Start-ups

- Payroll offset now \$500,000 increased from \$250,000
- After December 31, 2022
- FICA and Medicare offset (previously FICA only)

Low Income Housing

- Credit amounts under Sections 48, 48E, and 45Y **DO NOT REDUCE THE BASIS** in the buildings supported by Section 42 LIHTC's.

Transferrable Credits

- Transferability applies to section 48, 48E, 45Y and 30C credit for EV charging stations.
- 179D is NOT transferrable except for allocation to designers.



Question, Comments?

Contact Engineered Tax Services Directly

Or Email:

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