

Inflation Reduction Act Overview And Impacts on Real Estate

Today's Panelists









Kreig Mitchell CPA, Attorney, Former IRS Auditor

Lauren Flynn Government Affairs Analyst at K&L Gates

Ryan McCormick Heidi Henderson SVP of the Real Executive Vice Estate Roundtable

President at **ETS**



Topics For Discussion



45L Tax Credits
Housing Units
Extension and
Expansion



Changes and Expansion Industry Application

179D Deduction

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
- <u>Designers of buildings</u> 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) multifamily 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 ft²
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:

- 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).
 - 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-tojourneyworker ratios.
 - 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.





APPRENTICESHIPUSA

Construction

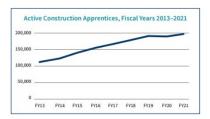
Employers in the construction sector face complex workforce challenges in increasingly competitive domestic and global markets. Registered Apprenticeship is employers' proven solution for recruiting, training, and retaining world-class construction talent in good, quality jobs. In 2021, there were over 197,421 registered apprentices in the construction occupations, increasing over 72% in the last eight years.

THE NEED FOR REGISTERED APPRENTICESHIP IN CONSTRUCTION

The construction industry is critical to our country's infrastructure and its economic competitiveness. The challenge? Significant recruitment barriers and an aging workforce are slowing the industry's ability to expand and prosper. Among these challenges:

- Reaching underrepresented and disadvantaged populations to increase the diversity of the workforce for inclusivity
- Investing in talent that can keep pace with the latest industry advances
- Industry image and related recruitment issues
- ► Impending retirements of highly-skilled and experienced workers
- Implementing workforce training models that effectively develop and "up-skill" talent

These workforce challenges undermine employers' productivity and profitability. The good news? There is a proven solution to meet companies' talent challenges: Registered Apprenticeship is a proven and industry-driven training model that can provide a critical talent pipeline for construction employers.



HE TOP TALENT IPLOYERS

on sector across the se the Registered train, and retain renticeship is ncing companies'

en, high-quality op and prepare obtain paid work ses, classroom nized credential. ted and approved por or a State

renticeship program, rkforce and

p is the gold programs not or they need: eople employable ly and maintain middle class. onstruction and tion workforce. the country eded. These

workers pprentice-toety; quality ent: uniform instructor

ncy requirements. tomorrow's more n McGarvey.

HOW CAN REGISTERED APPRENTICESHIP HELP COMPANIES?

Construction employers realize a number of benefits from implementing Registered Apprenticeship programs. Through Registered Apprenticeship, employers will:

- Recruit and develop a diverse and highly
- Improve productivity, profitability, and the company's bottom line
- Create flexible customized training options
- Standardize training so all workers receive the same national, industry-endorsed training at all facilitie
- Reduce turnover and liability costs
- Receive tax credits and employee tuition benefits in participating states

Partner with the Office of Apprenticeship, a U.S. Department of Labor Industry Intermediary or State Apprenticeship Agency and access a nationwide network of expertise, customer service, and support. Our apprenticeship team creates business solutions and helps you achieve workforce results quickly.

nticeship Today!

s Registered Apprenticeship—a proven model of apprenticeship that has

ate Apprenticeship Agency—under the National Apprenticeship Act.

nt of Labor's one-stop pprenticeship.gov



apprenticeship.gov

SNAPSHOT: EXAMPLES

RELATED APPRENTICEABLE

Construction Laborers

Operating Engineers and

Equipments Operators

OF CONSTRUCTION

Carpenters

Electricians

Plumbers

Bricklavers

Painters

Roofers

Insulators

Ironworkers

Boilermakers

Cement Masons

Sheet Metal Workers

Elevator Constructors

In 2021, there were over

197,421

Apprentices

in construction occupations

Updated August 2022

Apprenticeship.gov Manages, Supports and Creates Apprenticeship **Programs**

SAM.gov | Home

Homepage | Apprenticeship.govwww.sam.com





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).

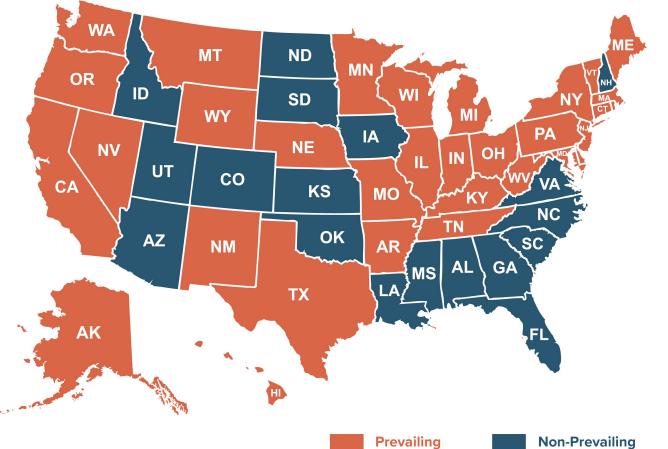
Credit amount can be increased by 2%/10% if project is located in an "energy community" (i.e., Brownfield site, census tract—or immediately adjacent tract— where a coal mine closed after Dec. 31, 1999, or coal-fired electric plant was retired after Dec. 31, 2009).



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

- Inflation Reduction Act of 2022





Wage States

Prevailing Wage Map

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	New Mexico	\$60,000
Delaware	\$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	
Maine	\$50,000	1111000010101010	\$1,000
Maryland	\$500,000	Tennessee	\$50,000
	, ,	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



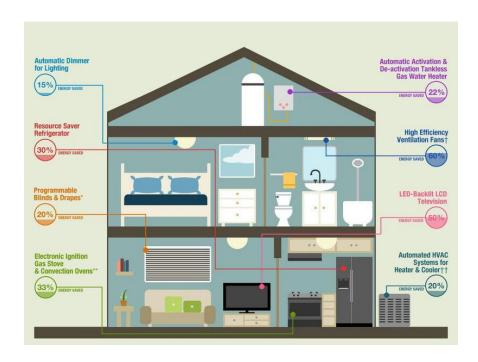
45L Tax Credit - 2022

- \$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	

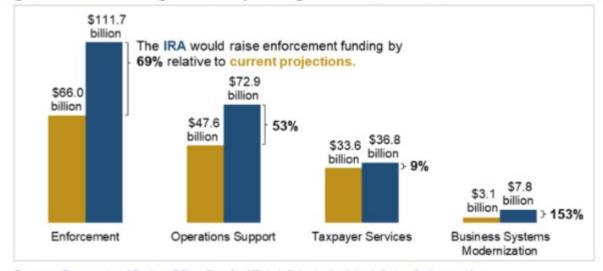
^{*}Single Family includes site-built and modular single family homes, duplexes and townhomes.



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:

hhenderson@engineeredtaxservices.com