



BOMA NY: The Inflation Reduction Act and commercial real estate

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New York, NY The Inflation Reduction Act of 2022 (IRA), signed into law by President Biden on August 16, includes a mixture of tax, health care, and energy policy. The commercial real estate industry should be aware of the advantageous changes to the tax code that incentivizes capital investments for sustainability and carbon emission reductions.

First, the bill changes a federal tax credit known as 45Q that will make it easier for building owners to reduce carbon emissions. This credit applies to carbon capture projects. The credit was increased from a maximum of \$20 per metric ton of carbon stored to \$60. It also allows ownership to take the credit over five years, following the installation of carbon capture equipment. Another 45Q modification reduces the amount of carbon that must be stored from 25,000 to 12,500 metric tons, and the 12,500 metric tons can be achieved across a developer's entire portfolio, and not just from an individual building. The credit can be applied to projects undertaken in the next 10 years.

The Inflation Reduction Act also amended section 179D of the tax code, increasing the deductions for "green" projects from a maximum of \$1.88 per s/f to \$5 per s/f. The credits for appropriate projects, such as the purchase of a new energy-efficient building or undertaking a major retrofit, can be fully applied in the first year, as opposed to apportioning it over several years. There is also an additional bonus for projects that pay workers a prevailing wage.

Solar panels will receive tax savings of 30% of the panels' costs, retroactive to January 1, 2022. Furthermore, panels can be depreciated over five years, whereas their useful lifespan is more likely 25-30 years. This tax benefit will continue until 2034.

In conclusion, many parts of the new Inflation Reduction Act will prove useful to the commercial real estate sector, including complying with emissions reduction mandates written in NYC Local Law 97. The federal focus on energy and emission reductions will also further stimulate sustainable investment and development.

While the ink of the presidential seal is still wet, the benefits apply to those who have already taken sustainable actions, as well as to those who will do so in the future.

BOMA New York will continue to keep its members and the CRE industry aware of new and pending

legislation; both local and national.

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