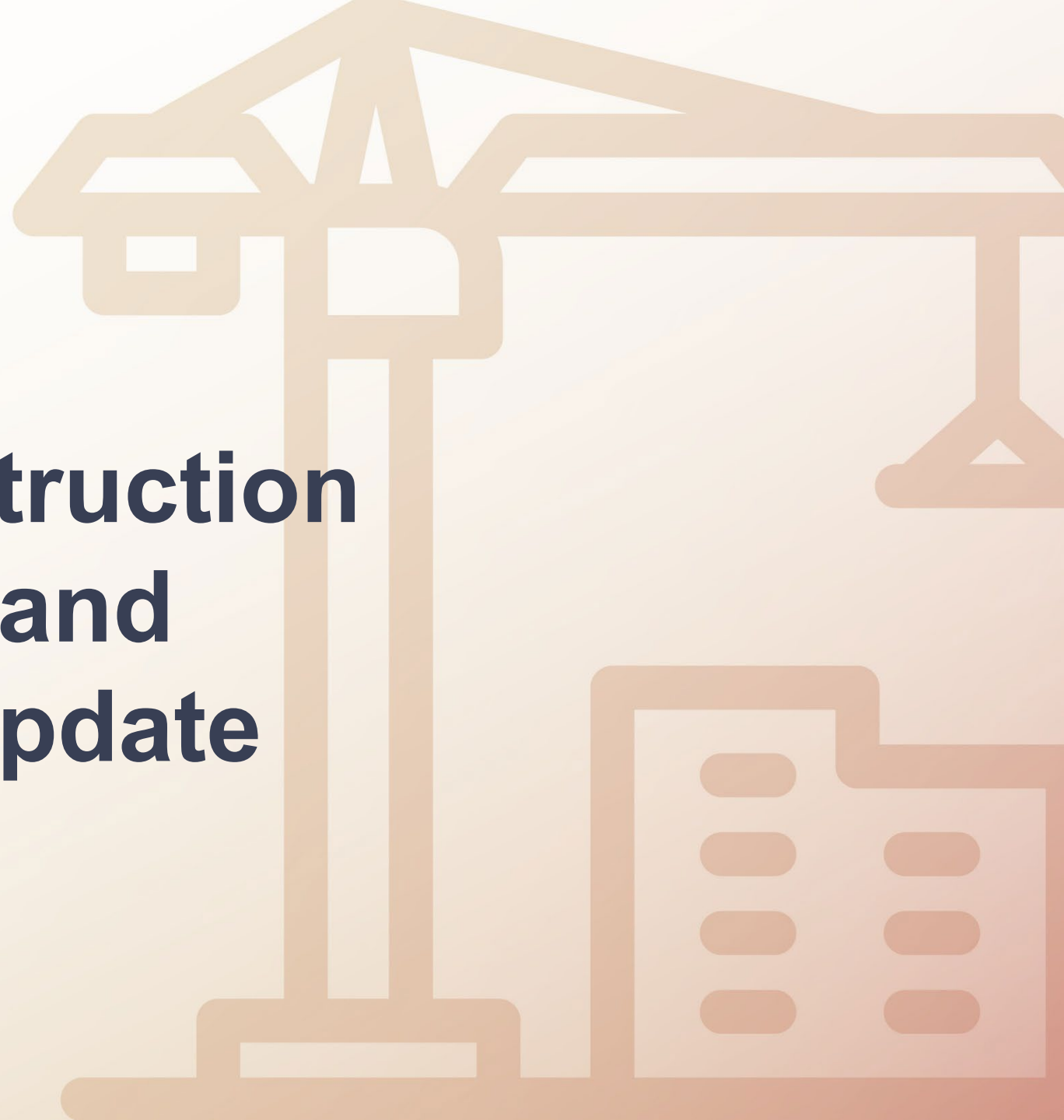




2024-25 Construction Tax Planning and Accounting Update

[macpas.com](https://www.macpas.com)



Introductions



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Partner

Director of Architecture,
Engineering, and
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Tim Showers, CPA
Director

Architecture, Engineering,
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Practice Leader



Kelly Koman, CPA
Senior Manager

Architecture, Engineering,
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Team Member

Firm Overview

McKonly & Asbury

M&A is a team of CPAs and Business Advisors serving clients from our offices in Camp Hill, Lancaster, Bloomsburg, and Philadelphia.

Services Provided

- Advisory & Business Consulting
- Audit & Assurance
- Entrepreneurial Support & Outsourced Accounting
- Internal Audit
- Professional Placement
- Tax
- Technology

Industries Served

- Affordable Housing
- Architecture, Engineering, and Construction (AEC)
- Employee Benefit Plans
- Family-Owned Business
- Healthcare
- Manufacturing & Distribution
- Nonprofit

Guest Speakers



Aaron Massey
Account Director



Brandon Val Verde
Director – Green Building
Tax Incentives



Jillian Jones
Senior Manager – Green
Building Tax Incentives



Mike Cornell
Senior Manager – Cost
Segregation



45L Residential Energy Tax Credits



§45L RESIDENTIAL ENERGY TAX CREDITS



What is the §45L Tax Credit?

Federal credit for residential homes and dwelling units that meet certain energy efficiency standards. The tax credit ranges from \$500 to \$5,000 per home, depending on the home type, move-in date, number of stories, and the energy efficiency requirements met. Units must be certified by a qualified third-party.



Applicable Clients/Properties

- Developers & Homebuilders who've built apartments, condos, or production home developments in the last 3-4 years, or
- Developers & Homebuilders with properties in their development pipeline
- New Construction and substantial renovation projects
- Single family homes and multifamily buildings of any height
- Generally, 20+ units



HOW MUCH IS IT WORTH?

Federal tax credit worth up to \$5,000 per qualified unit

Example: 100-unit apartment/condo =

\$500,000 of Federal Tax Credits

**3rd Party Certification Required (KBKG)*

45L Tax Credit – 2021 through 2022

- Introduced in 2006; extended numerous times prior to last sunset at end of 2021
- Inflation Reduction Act extends retroactively for 2022
 - Tax credit remains at \$2,000 per unit leased or sold until end of 2022
 - Benefit example: 100 units would be eligible for up to \$200,000 in credits
 - Energy efficiency criteria is same as recent prior years
 - Heating & cooling savings simulated at 50% less compared to 2006 IECC
 - Building envelope related savings at least 10% less compared to 2006 IECC
- Eligible buildings include:
 - Single family homes
 - Low-rise residential buildings (3 stories or less)
 - Significant rehab & reconstruction is eligible
- Eligible taxpayers include:
 - Homebuilders
 - Multifamily developers

45L Tax Credit – 2023 to 2032

- Inflation Reduction Act extends through 2032
- Eligible taxpayers include:
 - Homebuilders
 - Multifamily developers

Building Type	ENERGY STAR		ZERH	
	Base Rate	Bonus Rate (5x)	Base Rate	Bonus Rate (5x)
Multifamily	\$500	\$2,500	\$1,000	\$5,000
Single Family	\$2,500	-	\$5,000	-

- Prevailing wage requirements lead to 5x the tax credit
- Other key changes:
 - 45L doesn't reduce basis eligible for LIHTC
 - No height limit; mid-rise & high rise now eligible

45L Tax Credit – 2023 to 2032

- What's required?
 - Construction Related Requirements
 - Air Sealing, Reduced Thermal Bridging, Properly Installed Insulation, Ventilation, etc.
 - Energy Efficiency Measures
 - Identified via simulation modeling (e.g., SEER, DHW, Appliance efficiencies, etc.)
 - Product Related Requirements
 - Indoor Air Quality (e.g., Low VOC cabinetry, paint, floor coverings, etc.)
 - Future Readiness (e.g., Solar, HPWH, EV charging, etc.)
 - 3rd Party Inspections & Diagnostic Testing
 - Verifications & Inspections required throughout construction
 - Preconstruction planning before construction breaks ground
- What should I do?
 - Reach out to your tax preparer
 - Help them understand your development pipeline
 - Set up a call with a 3rd party verifier to get them involved early

Summary of 45L Changes

	45L (2021 to 2022)	45L (2023 to 2032)
When to start 45L Certification Process	Post-construction	Pre-construction
Credit per unit SFH (Homebuilders)	\$2,000	\$2,500 to \$5,000
Credit per unit (Multifamily Developers)	\$2,000	\$500 to \$1,000
Credit per unit (Multifamily Developers) Meeting Prevailing Wage Requirements	\$2,000	\$2,500 to \$5,000
Story Height Limit	Yes (3 stories or Less)	No
Reduce basis for calculating LIHTC	Yes	No

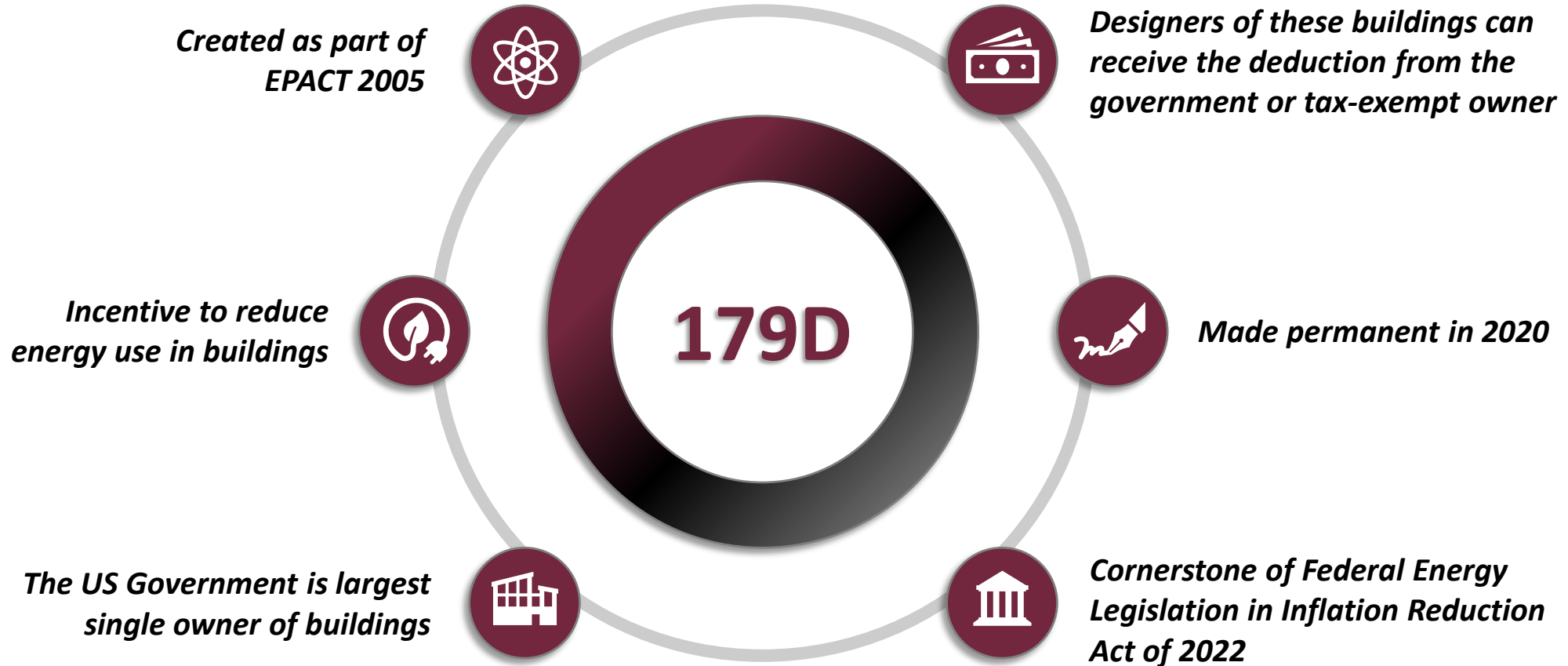


KBKG

179D



Overview of 179D





How does the Inflation Reduction Act Make 179D *more valuable*?

NEW Eligibility

Tax-exempt entities

- charitable organizations
- churches & religious organizations
- private schools & universities
- private foundations
- political organizations
- other non-profits
- Native American tribal governments
- Alaska Native Corporations

Prevailing Wages

Requirements

Required for Max Benefit
on Construction
1/29/2023 and later

Safe Harbor Exists

Benefit Changes

Significant increase!

- The Inflation Reduction Act expands both the impact and scope of the 179D tax deduction.
- Beginning January 1, 2023, the maximum allowable benefit increases **from \$1.88/sf to \$5.36/sf** of building area.



Summary of 179D Tax Deductions in detail

Compliance Path		Savings Requirement	Tax Deduction			
			taxable years before 2021	taxable year beginning 2021	taxable year beginning 2022	taxable year beginning 2023*
Fully Qualifying Property		25%	na	na	na	\$2.5/ft ²
		50%	\$1.80/ft ²	\$1.82/ft ²	\$1.88/ft ²	\$5.00/ft ²
Partially Qualifying Property	Envelope	10%	\$0.60/ft ²	\$0.61/ft ²	\$0.63/ft ²	na
	HVAC and HW	15%				
	Lighting	25%				
Interim Lighting Rule		25% - 40% lower lighting power density (50% for warehouses)	\$0.60/ft ²	\$0.61/ft ²	\$0.63/ft ²	na

*with prevailing wages

Example Case Study:

- 3 New Construction High Schools each at 500,000 sf
- 2022 year, Total Potential Deduction of **\$2,820,000 at 1.88 \$/sf**
- 2023+, Total Potential Deduction of **\$7,500,000 at 5.00 \$/sf**



Two paths of 179D qualification

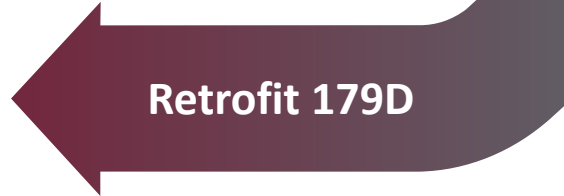


Traditional 179D

**Strengthened via
Inflation Reduction Act**

Energy Efficient Commercial Building Property

- No More Partial Qualifications or Interim Lighting Qualifications
- Whole Building Only
- Energy Cost Savings compared to ASHRAE 90.1 Compliant Baseline Model
- Designed Building vs Simulated Building



**Created via Inflation
Reduction Act**

Retrofit 179D

Alternative Deduction – Retrofit Property Retrofit

- Does not need to exceed ASHRAE Standards
- Focused on reductions compared to past actual usage
- No Energy Cost Component
- New Energy Usage vs Old Energy Usage
- Buildings Can Reclaim benefit
 - 3 Years for Owners
 - 4 Years for Tax Exempt



Case Study – Architect across three buildings

Building Size	Year Complete	Qualification Amount	Deduction Amount
175,000	2020	1.80 \$/sf	\$315,000
320,000	2023	4.50 \$/sf	\$1,440,000
215,000	2023	5.00 \$/sf	\$1,075,000
Total Deductions			\$2,830,000



ITC 48 + IRA Snapshot

INFLATION REDUCTION ACT SNAPSHOT

- Created and modifies several renewable energy credits
- Effective for tax years beginning on or after January 1, 2023
- Created Code Section 6417
 - A tax-exempt organization, State, Indian tribal government, etc. (applicable entity) may elect to be treated as making a federal income tax payment equal to the amount of the energy credit.
- Created Code Sec. 6418
 - A taxpayer that is not an applicable entity may elect to transfer all or a portion of the credit to an unrelated taxpayer
- In the past year, Treasury and IRS have released guidance

APPLICABLE ENERGY CREDITS

Types of credits eligible for Direct pay and Transferability:

- **Section 48 energy investment tax credit (“ITC”)**
- **Section 45 renewable energy production credit (“PTC”)**
- **Section 48C qualifying advanced energy project credit**
- **Section 45Q carbon capture credit**
- **Section 45U zero-emission nuclear power production credit**
- **Section 45V clean hydrogen production credit**
- **Section 45X advanced manufacturing production credit**
- **Section 45Y clean electricity production credit**
- **Section 45Z clean fuel production credit**
- **Section 30C credit for alternative fuel refueling property**

Common Energy Credit – Not eligible for Transferability / Eligible for Direct Pay

- **Section 45W – commercial clean energy credit**

TAX CREDIT TRANSFERABILITY

- The IRA allows for tax transfers of 11 different type of renewable energy tax credits, including the common Section 48 – Investment Tax Credit and Section 45 – Production Tax Credit
- Tax credit transferability market facilitates the purchase of credits at a discount with a shortened investment period
- Current market seeing transactions ranging from \$.80 - \$.93 with pricing depend upon project / credit size, energy technology utilized, creditworthiness of seller and the existence of indemnification / tax insurance
- **5-Year Recapture Period – Buyer would have to repay IRS for any recapture event**
 - **Recapture Risk**
 - Project sold
 - Developer goes bankrupt
 - ITC computation error
 - Cost Segregation / Certification mitigates this risk.

TRANSFERRING ENERGY CREDITS

How to buy and sell credits:

- Credits can only be transferred once
- Taxpayers must be unrelated parties
- Must be purchased solely for cash
- Once the purchase agreement is in place, a transfer election statement must be arranged between buyer and seller
- Taxpayers must complete pre-filing registration with the IRS if they intend to transfer all or a portion of an eligible credit. (Unique Registration ID received for each qualified project)
- **Passive Activity Rules must be considered**
- **Cash received for credits is not considered taxable income for seller**
- Unused credits can be carried back 3 years or forward 22 years

BUSINESS FEDERAL ENERGY TAX CREDITS – TRANSFERABILITY

- **KBKG Advantage (How we can help):** Turnkey Process
 - Working with reputable solar developers
 - KBKG providing **diligence by performing cost segregation analysis to establish eligible cost basis for ITC**
 - Cost Segregation is required by all Tax Insurance companies
 - Buyers of uninsured credits are requiring a Cost Segregation
 - Review due diligence reports provided by seller of credits
 - Authenticate tax credit calculation
 - Understand pricing, payment terms, guarantees and warranties provided by seller
 - Registration Process
 - Prevailing Wage and Apprenticeship Consulting
 - Reviewing Certified Payroll from Contractors
 - For Direct-Pay – more consulting involved
 - Understanding funding sources
 - Domestic Content Exceptions
 - Filing of Form 990-T



2024 Tax Update



2024 Tax Update

- Provisions in the Tax Cuts & Jobs Act currently scheduled to sunset at the end of 2025
- **Bonus phase out – 60% for 2024**
 - 2025 – 40% bonus
 - 2026 - 20% bonus
 - 2027 – 0% bonus
 - Section 179 depreciation is a good option for smaller/ mid-size taxpayers

2024 Tax Update

- Capitalization of R&D expenses (section 174 expenses)
- PTE tax elections
- Pennsylvania - Corporate net income tax rates
 - 2024 – 8.49%
 - 2025 – 7.99%
 - Continue to decrease by 0.5% annually until 2031 when it reaches 4.99%
- Post election tax update



A Contractor's Fall Accounting Punch List:

Your Guide to a Smooth Year-End Close



Fall Accounting Punch List

1. Review for contract items that drive unique accounting outcomes
 - No significant new accounting pronouncements are effective for 2024; Just some old “favorites”
2. Dashboard your covenants
3. Identify key externally-driven deadlines
4. Revisit closing processes
5. Keep an eye on “A.I.”

Fall Accounting Punch List

1. Review for contract items that drive unique accounting outcomes:

- **Uninstalled materials**
- **Variable consideration (i.e. pending change orders, incentives, etc.)**
- **Waste and rework**
- **Monitor status of over and under-applied indirect costs**

Fall Accounting Punch List

2. Dashboard your covenants:

- Working Capital and Working Capital Compression
- Current Ratio
- Underbillings to Working Capital
- Average Days in A/R
- Debt to Equity
- Debt Service Coverage

Fall Accounting Punch List

3. Identify external deadlines and plan intentionally for them:

- **Creditors**
- **Surety**
- **Pre-qualifications**
- **Valuations**
- **Other stakeholders**

Fall Accounting Punch List

4. Revisit your closing processes in advance:

- **New team members?**
- **New systems?**
- **New requirements?**
- **Are system/software access levels, permissions, and restrictions appropriate?**

Fall Accounting Punch List

5. Keep an eye on “A.I.”:

- **Contract review**
- **A/P and A/R**
- **Subcontractor prequalification**
- **Workflow**
- **Field applications**

Contact Information



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Upcoming Events



December 12 Webinar



**Tax Planning Strategies
for Affordable Housing
Developers**

SAVE THE DATE!

December 19 Webinar



Income Taxes – So
Where Do We Go
From Here?

REGISTER NOW