

SECTION 179-D · 6 MIN READ

The \$5.65-Per-Square-Foot Deduction

Most Commercial Building Owners Have Never Claimed

June 11, 2026 · Triple Star Strategy

What Section 179-D Is

If you own a commercial building and have made improvements to the lighting, HVAC system, or building envelope in the last several years, there is a meaningful chance you are sitting on an unclaimed federal tax deduction worth tens of thousands of dollars.

Section 179-D is a deduction under the Internal Revenue Code for energy-efficient improvements made to commercial buildings in the United States. The Inflation Reduction Act of 2022 made it permanent and tripled the maximum deduction to \$5.65 per square foot (2026, inflation-adjusted). Most building owners and many CPAs know the old version — not this one.

The Three Systems That Qualify

Interior Lighting

Fixture upgrades, controls, sensors — any lighting system improvement that reduces energy consumption.

HVAC & Hot Water

Heating, ventilation, air conditioning, and hot water systems — equipment, controls, and mechanical upgrades.

Building Envelope

Roof, walls, insulation, windows, and doors — the physical shell affecting energy transfer into and out of the building.

The Math: What It Is Actually Worth

The deduction amount is based on square footage and the percentage energy reduction achieved vs. the ASHRAE 90.1 reference standard. Minimum threshold: 25% reduction. Full rate requires meeting prevailing wage and apprenticeship requirements.

Building Size	Rate/Sq Ft	Total Deduction	Tax Savings (35%)
5,000 sq ft	\$5.65	\$28,250	~\$9,900
10,000 sq ft	\$5.65	\$56,500	~\$19,775
20,000 sq ft	\$5.65	\$113,000	~\$39,550
50,000 sq ft	\$5.65	\$282,500	~\$98,875
100,000 sq ft	\$5.65	\$565,000	~\$197,750

The Rule Almost Nobody Knows: Tax-Exempt Buildings

A Unique Provision Worth Understanding

Government buildings, schools, universities, and nonprofits cannot use a tax deduction — they have no taxable income. But the IRS built a workaround into Section 179-D: tax-exempt building owners can allocate the deduction to the designer of the energy-efficient systems — the architect, engineer, or contractor who designed the qualifying improvements.

That designer can then claim the deduction on their own return. Most architects and engineers who work on government or nonprofit projects have never claimed this. Most tax-exempt building owners have never offered it. Both are leaving money behind.

\$5.65

Per sq ft (2026)

Inflation-adjusted annually

25%

Minimum energy reduction

vs. ASHRAE 90.1 baseline

2023

IRA effective date

When the tripled deduction took effect

How to Know If You Qualify

- Do you own a commercial building — office, warehouse, retail, medical, industrial, or multifamily with 5+ units?
- Has there been any work done on the lighting, HVAC, or building envelope in the past 3–5 years?
- Has anyone ever run a Section 179-D analysis on the property?

If yes to the first two and no to the third — you have an open question worth answering. The analysis will confirm whether a deduction is available and exactly what it is worth. Works well alongside a cost segregation study on the same property.

Find Out If Your Building Qualifies

We will tell you honestly whether a 179-D analysis makes sense for your property — and what it is likely worth before you commit to anything.

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