

Energy Tax Aspects of Warehouses in the Carolinas

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The authors discuss the tax implications of the Carolinas' emergence as a manufacturing, warehousing, and distribution hub.

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The Carolinas have long been extremely important logistics centers because of their central position on the Eastern seaboard. In recent years, both North and South Carolina have become distribution hubs since they offer companies low costs, good roads, and close proximity to the major airport hub between Charlotte and Raleigh-Durham, North Carolina. Carrying this momentum forward, many major distribution logistics companies, research facilities, and data processing centers have either recently opened very large warehouses and distribution infrastructure, or unveiled plans to do so. Part of their logistics planning will necessarily involve a reduction in energy-related expenses

North Carolina is extremely well known for its large pharmaceutical and medical research facilities within the "Research Triangle" (the area between Raleigh, Durham, and Chapel Hill). The area has developed a support structure to facilitate this local industry, consisting of public infrastructure, specialized businesses, and synergies with the region's renowned universities. The managers of the Triangle have recently embarked on a plan to make the entire area more energy-efficient. At the same time, South Carolina's Charleston port has been undergoing a renaissance over the last few years, with a renewed focus on modernizing its manufacturing and distribution pipeline.

In order to make the most of their investments, warehouse owners and building managers within the Carolinas should consider utilizing federal EPAct tax incentives available to them for making energy retrofits.

The EPAct Section 179D Tax Opportunities

Pursuant to Energy Policy Act (EPAct) Section 179D, manufacturers in the Carolinas making qualifying energy-reducing investments in their new or existing locations can obtain immediate tax deductions of up to \$1.80 per square foot.

If the building project doesn't qualify for the maximum EPAct Section 179D \$1.80 per square foot immediate tax deduction, there are tax deductions of up to \$0.60 per square foot for each of the three major building subsystems: lighting, HVAC (heating, ventilating, and air conditioning), and the building envelope. The building envelope is every item on the building's exterior perimeter that touches the outside world including roof, walls, insulation, doors, windows and foundation.

Alternative Energy Tax Credits and Grants

There are multiple 30% or 10% tax credits available through the American Recovery and Reinvestment Act to manufacturers in the Carolinas for a variety of alternative energy measures, with varying credit termination dates. For example, the 30% solar tax and fuel tax credits expire January 1st 2017 while the 10% Combined Power tax credit also expires January 1st 2017. The 30% closed loop and open loop biomass credit expires January 1st, 2014.

All alternative energy measures that are eligible for the 30% and 10% tax credits are also eligible for equivalent cash grants for the three years starting January 1st 2009 and ending December 31st 2011. Warehouses and distribution centers are ideally suited for solar P.V. installations, given their vast amount of roof square footage.

Unique 2011 Opportunity: Enhanced Bonus Tax Depreciation

The credits described above are ordinarily eligible for 5 year MACRS depreciation, but warehouse owners who install these renewable energy systems after September 8, 2010 through December 31, 2011 can take 100% depreciation tax bonus immediately. Even if building owners miss this 2011 window, they can enjoy a 50% tax depreciation bonus on alternative energy equipment placed in service from January 1, 2011 through December 31, 2012.

North Carolina's Renewed Focus on Energy Efficiency

Much of North Carolina's warehouse development in recent years has been centered within the Research Triangle. Many companies across North Carolina have attempted to obtain LEED certification, the marquee standard for sustainable buildings. For instance, during the construction of Quintiles' (a pharmaceutical research company) new 252,000-square foot world headquarters in the Research Triangle Park, the company installed mechanical systems that lowered energy consumption and reduced Quintiles' carbon footprint. Similarly, the Piedmont Triad Aerotropolis Initiative, an idea the authors have previously discussed in an earlier article¹, is in the process of building a 930,100 square foot facility in the heart of the Triangle to house a multifaceted distribution center with a focus on energy efficiency.

However, not all of North Carolina's warehouse development has been clustered into the Research Triangle area alone. For that matter, many other large commercial properties in the state have undertaken plans to become more energy efficient, especially data and logistics centers. Figure 1 illustrates the square footage of many existing warehouses across the state along with their EPAct tax saving potential.

Figure 1: North Carolina Warehouse Potential EPAct Benefits

Warehouse Name	Location	Year Built	Approx. Square Footage	Potential EPAct Tax Savings
<h2>North Carolina Warehouse Potential EPAct Benefits</h2>				

Potential EAct 179D Tax Deductions Available for Energy Efficient Building Improvements Under Current

Property	Total Square Footage	Lighting	HVAC	Building
		Maximum Deduction	Maximum Deduction	Envelope Maximum Deduction
United States Cold Storage - Lumberton	6,800,000	\$ 4,080,000	\$ 4,080,000	\$ 4,080,000
United States Cold Storage - Warsaw	2,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000
2801 Lawndale Drive – Former Sears Distribution Center, Greensboro	1,746,936	\$ 1,048,162	\$ 1,048,162	\$ 1,048,162
Kmart Distribution Center, Greensboro	1,400,000	\$ 840,000	\$ 840,000	\$ 840,000
Hanesbrands Distribution Center, Perris	1,300,000	\$ 780,000	\$ 780,000	\$ 780,000
Team DCA - Charlotte	1,200,000	\$ 720,000	\$ 720,000	\$ 720,000
Fedex Express, Piedmont Triad International Airport	1,000,000	\$ 600,000	\$ 600,000	\$ 600,000
Harris Teeter Distribution Centers, Multiple Locations	939,000	\$ 563,400	\$ 563,400	\$ 563,400
Piedmont Triad Industrial Center, Winston-Salem	930,100	\$ 558,060	\$ 558,060	\$ 558,060
Replacements, Ltd., Greensboro	750,000	\$ 450,000	\$ 450,000	\$ 450,000
Cherryville Public Warehouse - Cherryville	650,000	\$ 390,000	\$ 390,000	\$ 390,000
Liberty Hardware Distribution Center, Winston-Salem	526,000	\$ 315,600	\$ 315,600	\$ 315,600
Apple Data Center, Maiden	500,000	\$ 300,000	\$ 300,000	\$ 300,000
Schenker Logistics, Kinston	500,000	\$ 300,000	\$ 300,000	\$ 300,000
Lentz Transfer & Storage, Clemmons	491,500	\$ 294,900	\$ 294,900	\$ 294,900
Northridge Business Park, Rural Park	471,034	\$ 282,620	\$ 282,620	\$ 282,620
Jacobson Companies - Shelby	470,000	\$ 282,000	\$ 282,000	\$ 282,000
C&O Warehousing Corp. - Durham	400,000	\$ 240,000	\$ 240,000	\$ 240,000
Broad Street Bonded Warehouse, Inc. - Gastonia	392,500	\$ 235,500	\$ 235,500	\$ 235,500
Polo Ralph Lauren Distribution Center, High Point	362,000	\$ 217,200	\$ 217,200	\$ 217,200
Peoples Services, Inc. - Charlotte	350,000	\$ 210,000	\$ 210,000	\$ 210,000
Legacy Classic Furniture Distribution Center, High Point	347,000	\$ 208,200	\$ 208,200	\$ 208,200
4190 Eagle Hill Drive, High Poin	343,000	\$ 205,800	\$ 205,800	\$ 205,800
We Pack Logistics, LP - Lumberton	325,000	\$ 195,000	\$ 195,000	\$ 195,000
Salem Business Par, Winston-Salem	302,200	\$ 181,320	\$ 181,320	\$ 181,320
McConnell Center, Greensboro	301,910	\$ 181,146	\$ 181,146	\$ 181,146
Facebook Data Center, Forrest City	300,000	\$ 180,000	\$ 180,000	\$ 180,000
5644 Hornaday, Greensboro	300,000	\$ 180,000	\$ 180,000	\$ 180,000
UPS Ground, Greensboro	282,316	\$ 169,390	\$ 169,390	\$ 169,390
540 Northridge Park Dr., Winston-Salem	261,000	\$ 156,600	\$ 156,600	\$ 156,600
We Pack Logistics, LP - Maxton	205,000	\$ 123,000	\$ 123,000	\$ 123,000
Jacobson Companies - Lexington	180,000	\$ 108,000	\$ 108,000	\$ 108,000
Vernon Distribution Services Inc - High Point	175,000	\$ 105,000	\$ 105,000	\$ 105,000
Kuehne + Nagel - Durham	150,000	\$ 90,000	\$ 90,000	\$ 90,000
Genworth Data Center, Raleigh	134,152	\$ 80,491	\$ 80,491	\$ 80,491
Burris Logistics - Benson	129,127	\$ 77,476	\$ 77,476	\$ 77,476
Conwarco - Hickory	100,000	\$ 60,000	\$ 60,000	\$ 60,000
Distribution Technology, Inc. - Charlotte	100,000	\$ 60,000	\$ 60,000	\$ 60,000
Nationwide Distribution Services - Statesville	100,000	\$ 60,000	\$ 60,000	\$ 60,000

Google Data Center, Lenoir	100,000	\$ 60,000	\$ 60,000	\$ 60,000
6550 Judge Adams Road, Whitsett	52,000	\$ 31,200	\$ 31,200	\$ 31,200
Lawrence Transportation Systems - Greensboro	50,000	\$ 30,000	\$ 30,000	\$ 30,000
SAS Data Center, Raleigh	31,000	\$ 18,600	\$ 18,600	\$ 18,600
Sports Associated - Mocksville	10,000	\$ 6,000	\$ 6,000	\$ 6,000
Totals:	27,957,775	\$ 16,774,665	\$ 16,774,665	\$ 16,774,665

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South Carolina's Surging Port Economy

In the first week of June, 2011, South Carolina legislators granted Amazon preferable tax treatment in response to Amazon's promise to build new distribution facilities in the state. Yet the Amazon deal is merely one part of a broad, overarching plan to support growth in the Charleston port area, which is the source of around 10% of the state's jobs, by connecting the port to major, modern, energy-efficient distribution facilities.

The Charleston port area has both direct economic and indirect consequences for commercial properties, particularly warehouses, distribution centers, and manufacturing facilities. On the one hand, the port has a \$45 billion fiscal impact on the state, and in order to support the importing, exporting and transportation of goods, many manufacturers are strategically located close to the port. By the same token, the health of the port system is critical to the entire commercial real estate industry in the state. Figure 2 presents the EPAct tax savings potential available to many existing warehouse owners, distribution centers, manufacturers, and logistics companies in South Carolina.

Included in Figure 2 is Boeing's new assembly plant in Charleston. Boeing's 1.9 million square foot facility, built in the heart of the port area, is a perfect illustration of the importance of manufacturing and distribution to South Carolina. The state offered substantial funding to the project because it is estimated to create nearly 4,000 jobs and attract new business to the area.

Figure 2: South Carolina Warehouse Potential EPAct Benefits

South Carolina Warehouse Potential EPAct Benefits				
Potential EPAct 179D Tax Deductions Available for Energy Efficient Building Improvements Under Current Law				
Property	Total Square Footage	Lighting Maximum Deduction	HVAC Maximum Deduction	Building Envelope Maximum Deduction
VersaCold - Piedmont	6,600,000	\$ 3,960,000	\$ 3,960,000	\$ 3,960,000
VersaCold - Gaffney	2,200,000	\$ 1,320,000	\$ 1,320,000	\$ 1,320,000
VersaCold - Greenville	2,200,000	\$ 1,320,000	\$ 1,320,000	\$ 1,320,000
Adidas Distribution Center, Spartanburg	1,900,000	\$ 1,140,000	\$ 1,140,000	\$ 1,140,000
Boeing, Charleston	1,900,000	\$ 1,140,000	\$ 1,140,000	\$ 1,140,000
Target Distribution Center, Lufogg	1,800,000	\$ 1,080,000	\$ 1,080,000	\$ 1,080,000
Terminal Warehouse - Simpsonville	1,700,000	\$ 1,020,000	\$ 1,020,000	\$ 1,020,000
QVC Distribution Center, Florence	1,400,000	\$ 840,000	\$ 840,000	\$ 840,000
TBC Distribution Center, Jedburg	1,100,000	\$ 660,000	\$ 660,000	\$ 660,000

Merchant Distributors, Inc., Hickory	1,000,000	\$ 600,000	\$ 600,000	\$ 600,000
Bosch Manufacturing, Charleston	900,000	\$ 540,000	\$ 540,000	\$ 540,000
Walgreens Distribution Center, Anderson	700,000	\$ 420,000	\$ 420,000	\$ 420,000
Automated Distribution Systems - Gaffney	650,000	\$ 390,000	\$ 390,000	\$ 390,000
Eastern Distribution, Inc. - Greenville	500,000	\$ 300,000	\$ 300,000	\$ 300,000
Fujifilm Distribution Center, Greenwood	500,000	\$ 300,000	\$ 300,000	\$ 300,000
Kimberly-Clark Distribution Center, Graniteville	450,000	\$ 270,000	\$ 270,000	\$ 270,000
Force Protection, Ladson	430,000	\$ 258,000	\$ 258,000	\$ 258,000
Regal Logistics, Charleston	351,000	\$ 210,600	\$ 210,600	\$ 210,600
Palmer Logistics - Hanahan	218,000	\$ 130,800	\$ 130,800	\$ 130,800
Jacobson Companies - Greenwood	170,000	\$ 102,000	\$ 102,000	\$ 102,000
Jacobson Companies - Duncan	105,000	\$ 63,000	\$ 63,000	\$ 63,000
CWC Logistics - Greer	104,094	\$ 62,456	\$ 62,456	\$ 62,456
Palmer Logistics - Charleston	100,000	\$ 60,000	\$ 60,000	\$ 60,000
Nationwide Distribution Services - Columbia	100,000	\$ 60,000	\$ 60,000	\$ 60,000
Palmer Logistics - Charleston	77,800	\$ 46,680	\$ 46,680	\$ 46,680
Goggin Warehousing LLC - Orangeburg	60,000	\$ 36,000	\$ 36,000	\$ 36,000
Totals:	27,215,894	\$ 16,329,536	\$ 16,329,536	\$ 16,329,536

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Tax Incentivized Energy-Efficient Design Process Steps

The process steps for achieving an energy-efficient warehouse, distribution center or manufacturing facility are presented below:

1. Assemble team including experts for EPC tax incentives, utility rebates, lighting, heater, envelope and solar.
2. See if roof is compatible for solar and heater. Obtain solar and any needed roof/insulation proposals. Make sure existing roof warranties are compatible with solar P.V. installation.
3. Obtain lighting design that replaces all inefficient lighting. Compare and contrast fluorescent, induction and LED lighting alternatives.
4. Obtain Cambridge heater or equivalent design proposal based on proposed roof design.
5. Determine utility rebate based on all proposed separate and combined measures. Lighting will reduce electrical use. Roof, insulation and heater will reduce therms.
6. Determine tax incentives including EPC tax deduction benefit and solar credit tax deductions. EPC will be based on total project square footage, including mezzanines and pick and pack modules. The 30% solar tax credit will be based on the combined solar material and installation costs.
7. Prepare project proposal integrating project cost, energy savings, utility rebates and tax incentives
8. Get project approved.
9. Hire contractors and execute project.
10. Have EPC modeler and tax expert prepare IRS approved software model and tax documentation.
11. Process utility rebates.
12. Reduce Federal and State estimated tax payments for large tax deductions and credits.
13. Celebrate tax enhanced energy-efficient building achievement.

Conclusion

The Carolina's have become increasingly important to the nation's importing and exporting industries, especially along the Eastern seaboard. As a result, they continue to experience robust growth in their manufacturing, warehousing, and distribution sectors. In order to optimize their operational expenses, appeal to energy-conscious customers, and stay at the forefront of a changing economy, owners of these building categories must make energy efficient building investment supported by large tax incentives.

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