

Federal Tax Incentives Cover Cost of Retrofitting Commercial Buildings With Fire Sprinklers



Fire sprinklers prevent the spread of fire, protecting property, business, employees, patrons and first responders. They also prevent economic loss due to business closure, provide insurance savings and decrease liability risks. If your property is not protected, now is the time to retrofit or upgrade fire sprinkler systems in existing commercial structures, thanks to significant tax incentives passed by Congress.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 includes a technical correction to the 2017 Tax Cuts and Jobs Act (TCJA) that gives incentives to corporations that retrofit their businesses with fire sprinkler systems.

The 2017 TCJA allows small business owners to write off the full cost of commercial fire sprinkler systems as an expense up to \$1.08 million (when adjusted for inflation in 2022). This benefit enables many small businesses to immediately recover the costs of the upfront investment. Also, those who borrow money to pay for a project can fully

deduct the interest expense of the loan.

Section 179 of the U.S. Internal Revenue Code has long allowed small businesses to deduct the cost of certain property like machinery as an expense at the moment it is placed in service—instead of writing it off over its useful life. The new Section 179 deduction applies to **upgrading existing systems or retrofitting systems in existing structures.**

The goal is to stimulate long-term economic growth by encouraging businesses to make capital investments. The Section 179 benefit is not phased out over time.

For businesses to receive the full TCJA benefit, a company may currently only spend the maximum of \$2.7 million on equipment in a year. After that, the deduction phases out on a dollar-for-dollar basis and eventually reaches zero.

The TCJA also allows businesses to deduct several categories of equipment—including fire sprinklers—under the umbrella of qualified improvement property (QIP).

QIP refers to improvements made by a taxpayer to an interior portion of an existing building that is nonresidential real property.

If equipment was put into use after September 27, 2017 and before January 1, 2023, businesses can deduct 100% of the cost of a sprinkler system installation. (A tax advisor can help a property owner retroactively claim any missed deductions from installing a fire sprinkler system between September 27, 2017 and present.)

Between 2023 and 2026, the depreciation percentage is gradually reduced (80% in 2023; 60% in 2024; 40% in 2025; and 20% in 2026) until the depreciation schedule is permanently set at 15 years in 2027. Previously, the cost of all commercial fire protection systems was depreciated over 39 years.

Once bonus depreciation drops below 100%, the remaining cost of the sprinkler system is spread out over 15 years as regular depreciation under Modified Accelerated

Cost Recovery System (MACRS), a federal income tax convention that allows for a larger tax deduction in the early years of an asset's useful life, and less with the passage of time. A **professional tax advisor can help a business determine precisely how the new incentives will impact its bottom line.** Also, keep in mind that companies must be profitable to take advantage of the tax deduction.

Whether your building is required to install fire sprinklers due to model codes and/or local ordinances or you are looking to upgrade your building's fire safety, act quickly to take advantage of the federal tax incentives before the full benefits expire.

For more information visit www.firesprinklerassoc.org/federal-incentives

LOCAL GRANTS ENCOURAGE BUILDING AND PROPERTY OWNERS TO MAKE BUILDINGS SAFER

Some municipalities offer local grants or incentives to encourage the installation of fire safety systems in existing buildings. Elected and local officials make these grants available for buildings built before fire sprinklers and other safety systems were required by code. They recognize that fire sprinklers prevent the spread of fire, protecting property, employees, patrons and firefighters. Fire-safe buildings can prevent economic loss due to business closure and a potential eyesore after a fire.

For more information about local grants visit: www.firesprinklerassoc.org/local-incentives

