

Tax Reform Info

2020 Edition revised April 10



Now is the time to invest in your fire sprinkler system or retrofit your building with lifesaving and property conserving protection.

In December of 2017, Congress passed the most sweeping tax reform legislation since 1986. Included in this legislation (P.L. 115-97) was a provision to incentivize the installation of fire sprinklers for small business owners (Section 179). Inadvertently left out, was the provision for high-rise commercial buildings (Section 168). We are happy to report that the correction for high-rise was made in the Coronavirus stimulus package which passed on March 27, 2020. We also thank all of our fire service partners: Congressional Fire Services Institute; International Fire Chiefs Association; International Fire Fighters Association; National Fallen Firefighters Foundation; National Fire Protection Association; Common Voices; National Volunteer Fire Council; Security Industry Association; Phoenix Society for Burn Survivors, and many others. We will work with stakeholders to gain additional clarifications in regards to IRS interpretations as this is put into use. Encourage owners to work with their tax expert for their specific situation.

The fire sprinkler incentives are:

- **Small Business Section 179 Expensing** – Previously qualified small businesses were allowed to fully expense purchases such as computers, equipment and light duty vehicles up to an annual cap of \$500,000. Under the new law Congress has added fire protection as an eligible expenditure under section 179 of the tax code. Congress also increased the cap to \$1 million as the amount that a small business can deduct in a single year. This provision applies only to commercial structures and cannot be used for retrofitting sprinklers into residential structures. However, critical occupancies such as entertainment venues could easily be done under this provision. This change is also a permanent law and unlike section 13201 is not gradually phased out over time.

- **Cost Recover Section 13201 Temporary 100 Percent Expensing for Certain Business Assets** – Previously sprinkler systems in commercial structures were depreciated over a 39-year time horizon. Under the new law any sprinkler system installed or upgraded after September 27, 2017 in an existing commercial structure until December 31, 2022 will be able to be fully expensed. Therefore, the property owner will be able to immediately write off the full cost of the sprinkler system. After 2022 the ability to deduct the cost is as follows:

2023	80%
2024	60%
2025	40%
2026	20%
2027	The depreciation schedule is now permanently set at 15 years

In order to help our members and interested stakeholders fully understand this new tax law, we have created a few examples. If you have a question about a building type that is not shown or additional questions about those that are listed, please reach out to us by contacting Vickie Pritchett, Executive Officer, at 443-569-9506 or via email at pritchett@nfsa.org.

Fire sprinklers save lives, property, water, money, the environment, and on and on. Keep your patrons safe, keep your business running and limit your liability.



514 Progress Drive, Suite A
Linthicum Heights, MD 21090 • nfsa.org

Established in 1905, the National Fire Sprinkler Association (NFSA) is the voice of the fire sprinkler industry. NFSA leads the drive to get life-saving and property protecting fire sprinklers into all buildings; provides support and resources for its members – fire sprinkler contractors, manufacturers and suppliers; and educates authorities having jurisdiction on fire protection issues. Headquartered in Linthicum Heights, MD, NFSA has regional operations offices throughout the country.

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Example 1: Nightclub Retrofit

7,500 square-foot assembly occupancy

Cost to install fire sprinklers = \$6.00/sq.ft.

Total \$45,000

Assuming this is owned by a small business, under 179 they could fully expense the cost. The 179 change is permanent law and is not subject the phase out.

Previously these improvements were depreciated over 39 years.

Example 2: Bowling Alley

20,000 square-foot assembly occupancy

Cost to install fire sprinklers = \$4.50/sq.ft.

Total \$90,000

Same as Example 1

Note: These are specific examples of actual buildings in various locations around the country. The actual cost is impacted by many variables, including the region of the country. Please reach out to NFSA or find a member on our website to assist in your particular situation and for a quote specific to your building and region.

The one type missing within our fire sprinkler incentive “available resources” at this time is residential high-rise. Your support of HR 4685 and the soon-to-be-filed Senate companion bill can help us see this type of building also included. Make sure you keep an eye on updates at nfsa.org - working together we can make our world a safer place!



Example 3: High-Rise Office

18-story high-rise with 26,000 sq.ft./Floor = 468,000 @ \$6.50/sq. ft.

Total Cost = \$3,042,000

You would be able to fully expense for the first 5 years.

Beyond this 5-year window you will be able to recover the costs in the following manner:

Year 6=80%; Year 7=60%; Year 8=40%; Year 9=20%;
After year 10 it will depreciate on a 15 year schedule not the previous 39 year schedule

Any percentage not fully expensed would then be amortized over a 39-year window.

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