

# Fire Sprinkler Retrofit Tax Incentives Summary



OCTOBER 2024

## Section 179

Under Section 179 of the United States Internal Revenue Code, small businesses can fully expense the total cost of installing a commercial fire sprinkler system up to the 2024 tax year cap of \$1.22 million. This policy is a permanent provision that allows businesses to deduct the full purchase price of qualifying equipment. Qualifying equipment includes items such as computers, office furniture, HVAC systems, and light duty trucks over 6,000 pounds in addition to fire sprinkler systems and other eligible properties.

Section 179 is geared for small businesses and begins to phase out if a company's equipment purchases for a given tax year exceed a threshold. The threshold for the 2024 tax year is \$3.05 million in equipment purchases. Under this construct, companies that purchase more than \$3.05 million in property would see a dollar-for-dollar reduction in the amount they could deduct for every dollar over this threshold. For example, a business that has equipment purchases exceeding \$4.27 million in the 2024 tax year would not see any benefit from this provision of the tax code. It is important to note that both the amount you can expense, and the threshold amount of equipment purchased, are indexed to inflation and will increase each tax year.

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.



## Qualified Improvement Property (QIP)

Qualified Improvement Property (QIP) is a new definition that was created under the 2017 Tax Cut and Job Act (TCJA). QIP is defined as any improvement made to the interior of a nonresidential building after the building is placed in service. This includes retrofitting existing buildings with fire sprinkler systems and lowers the 39-year depreciation schedule of fire sprinkler systems to 15 years. It is important to note that QIP applies only to nonresidential property and that residential property is not eligible.

## Qualified Improvement Property (QIP) and Bonus Depreciation

As part of the TCJA, QIP was also made eligible for bonus depreciation. Under the construct of the TCJA, QIP investments such as fire sprinklers were 100 percent deductible if placed in service between September 2017 and December 31, 2023. After this 5-year period of allowing property owners to fully deduct QIP costs, bonus depreciation was gradually stepped down according to the following schedule:

2023 . . . . .	80%
2024 . . . . .	60%
2025 . . . . .	40%
2026 . . . . .	20%
2027 . . . . .	No bonus depreciation and QIP is depreciated under the 15-year timeline

## High Rise Fire Sprinkler Incentive Act (H.R 8135/S.4234)

QIP only applies nonresidential structures and following the passage of the TCJA, the fire service came together and determined that the most at-risk property needing protection were residential high-rise structures. Although current building codes now require fire sprinklers in high-rise new construction (above 75 feet), there are thousands of residential high-rises that were built and put in service before fire sprinklers were required by code.

As these existing high-rise buildings and their occupants age they are more at risk of fire. Fires in high-rise buildings are extremely dangerous because of their location and required effort for civilians to evacuate and firefighters to gain access with their equipment. They are also more dangerous because of petroleum based synthetics materials used in modern furnishings and building components, the number of possessions people now accumulate, and the lack of maintenance of existing systems. The High Rise Fire Sprinkler Incentive Act was introduced in May of 2024 and would lower the depreciation schedule of residential fire sprinkler systems to 15 years to give it parity with nonresidential QIP.

As always, consult your local tax professional to learn which of these incentives are applicable for you and your situation.

 @NFSAorg  
 NFSA.org  
 National Fire Sprinkler Association

#fastestwater

*Fire is fast.  
Fire sprinklers are faster.*



514 Progress Drive, Suite A  
Linthicum Heights, MD 21090  
(443) 863-4464 • nfsa.org