

Tax Reform Info

2018 Edition



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

In December, Congress passed the most sweeping tax reform legislation since 1986. Included in this legislation (P.L. 115-97) are two provisions that will greatly incentivize the installation of fire sprinklers. The National Fire Sprinkler Association appreciates the efforts and work that happened for 14+ years prior to this passage that allowed fire sprinklers to be included. A special thank you to Congressman Jim Langevin, who has championed this inclusion since the beginning as a result of the Station Nightclub fire being in his district. 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. Understanding the costs of fire is important to business owners across America, and NFSA now shifts our work to sharing this information with our fire service allies and stakeholder groups that are directly affected.

The fire sprinkler incentives are:

- **Cost Recover Section 13201** – Previously sprinkler systems in commercial structures were depreciated over a 39-year time horizon and residential structures over 27.5 years. Under the new law any sprinkler system installed after September 27, 2017 in either a commercial or residential 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 will revert back to 39 and 27.5 years for commercial and residential properties (respectively)

- **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.

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, Director of Outreach & Government Relations 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.

Current Law: you are depreciating over a 39-year period.

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

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%;
Year 10=0%

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

Current Law: you would recover costs over 39 years.



Example 4: I own 16 group homes as XYZ Health Care Providers

I choose to upgrade all fire alarms and fire sprinkler systems.

Total Cost = \$5,000,000

You could fully expense for 5 years just as Example 3.

At 16 group homes you may not be qualified for 179 depreciation, check with your tax advisor to be sure.

Current Law: you are depreciating over a 39-year period.

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.



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