

# FIRE SPRINKLER TAX INCENTIVES FACT SHEET



## Sprinklers in Commercial Buildings

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).

## Tax Incentive: Small Business Section 179

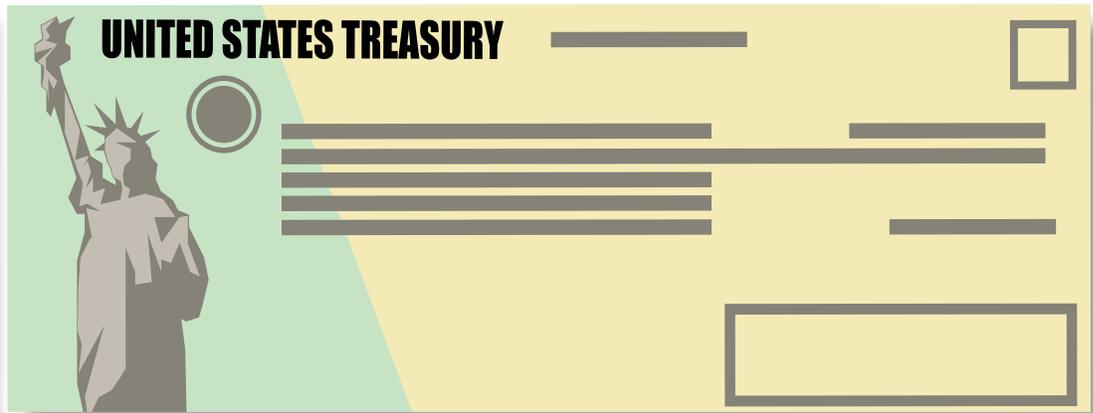
Section 179 of the U.S. Internal Revenue Code **allows small businesses to write off the full cost of commercial fire sprinkler systems as an expense up to \$1.04 million.** This benefit enables many small businesses to immediately recover the costs of the upfront investment. Those who borrow money to pay for a project can fully deduct the interest expense of the loan.

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

This provision applies only to commercial structures and cannot be used for retrofitting sprinklers into residential structures.

Critical occupancies such as entertainment venues could easily be protected under this provision. This change is a permanent law and is not gradually phased out over time.

*(continued)*



## What Businesses Need To Know About Cost Recovery Section 13201

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 businesses of any size that retrofit their properties with fire sprinkler systems. Under the umbrella of qualified improvement property (QIP), the tax incentive only applies to improvements made by a taxpayer to an interior portion of an existing building that is nonresidential, commercial real property.

Under Cost Recovery Section 13201, there is a temporary 100 percent expensing, a process known as bonus depreciation. Previously, the costs for sprinkler system installations in commercial structures were depreciated over a 39-year time horizon. Under the new law any sprinkler system in an existing commercial structure that is installed or upgraded from September 27, 2017 - December 31, 2022 can be fully expensed, allowing the property owner to immediately deduct the full cost of the sprinkler system.

After 2022 the ability to deduct the cost is as follows:

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

**A professional tax advisor can help a business determine precisely how the new incentives will impact its bottom line.** 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.

- *The CARES Act Delivers New Fire Sprinkler Tax Incentives:*  
[www.nfsa.org/2020/06/02/the-cares-act-delivers-new-fire-sprinkler-tax-incentives](http://www.nfsa.org/2020/06/02/the-cares-act-delivers-new-fire-sprinkler-tax-incentives)



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