

# FIRE SPRINKLER TAX INCENTIVE FACT SHEET



## New Federal Tax Incentives Cover the Costs of Retrofitting Fire 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).

Inadvertently left out was the provision for high-rise commercial buildings (Section 168). In March 2020, a correction for high-rise buildings was made as part of the coronavirus stimulus package.

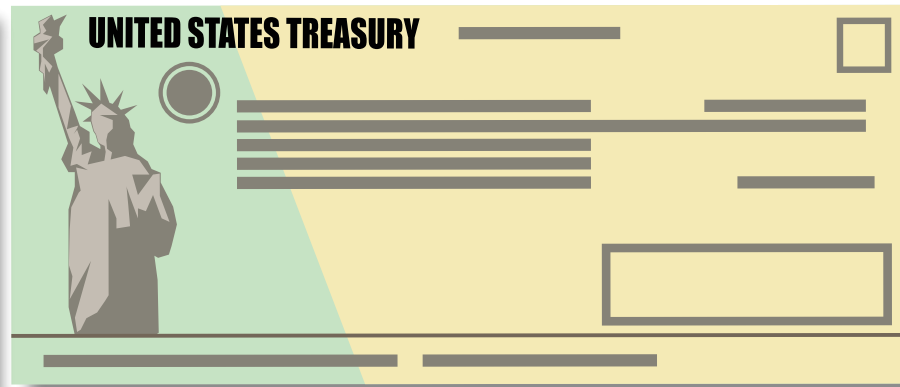
## Tax Incentive: Small Business Section 179

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.



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

The [Coronavirus Economic Stabilization \(CARES\) 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. Previously, the cost 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

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). MACRS is 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.** 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.

- For more details about the Tax Incentives: [The Care Act Delivers New Fire Sprinkler Tax Incentives.](#)

# WHY EXISTING BUILDINGS NEED FIRE SPRINKLERS



## What does a local fire cost?

Reported property fires cost more than \$10 billion per year, and cause 2,844 civilian deaths and 12,812 injuries. Second only to residential structures in reported fire property loss, mercantile/business properties experienced an annual average loss of \$849.1 million as a result of fire (NFPA 2014-2018). There are more than 22,000 storage fires per year, costing \$637.1 million in property loss. Another category is manufacturing and processing facilities, which lose \$509.5 million each year.

Fires and exposure risk cause direct hardship and financial impacts on municipal and private fire protection districts and first responders. In 2018, 22,975 firefighter injuries happened at the fireground (NFPA); an additional 4,150 injuries occurred while responding to or returning from incidents. A multi-year study conducted by the National Institute for Occupational Safety and Health (NIOSH) found that firefighters have a 9% increased cancer rate diagnosis and 14% increase in cancer-related deaths, compared to expectations for the U.S. population. <https://blogs.cdc.gov/niosh-science-blog/2017/05/10/ff-cancer-facts/>

## Impact on Local Business

In addition to lost sales and other business income, irreplaceable files and records are often destroyed by fire. When a fire strikes it can result in permanent closure of a business, high costs associated with temporary relocation, and terminated personnel.



## Impact on Community



Other damages include environmental contamination from emissions and water pollution as well as destruction of goods and their disposal. Rebuilding, when it happens, may result in additional environmental impacts. Often, rebuilding takes time, leaving unsightly and potentially dangerous structural debris that mars the community and leaves the potential for vacant building fires. Additional impacts of shuttered businesses are reduced municipal utility and tax revenues.



### W. Warwick, RI, The Station Nightclub fire (2003):

Pyrotechnics ignited flammable acoustic foam in the walls and ceilings surrounding a stage during a concert. The building was not protected with fire sprinklers. The toxic smoke, heat, and the resulting human rush toward the main exit killed 100; 230 were injured and another 132 escaped uninjured. This fire was the fourth-deadliest at a nightclub in U.S. history. It was this deadly fire that motivated fire service, trade and advocacy organizations to work with legislators to pass the tax incentive bills. <https://www.iccsafe.org/building-safety-journal/bsj-dives/remembering-the-station-nightclub-fire/>

### Other historic fires include:



### Philadelphia, PA, One Meridian Plaza Fire (1991):

A fire started on the unsprinklered 22nd floor after linseed oil-soaked rags ignited. The fire raged out of control for hours. It was brought under control once it reached the 30th floor, one of the few floors protected with automatic fire sprinklers. Three firefighters died in the twelve-alarm fire after becoming disoriented by heavy smoke. The fire damaged neighboring buildings and sat vacant for eight years. <https://www.philasun.com/local/remembering-meridian-bank-building-fire-27-years-later/>



### Worcester, MA, Cold Storage Building Fire (1999):

A fire in this unsprinklered abandoned warehouse was accidentally started by two homeless people who knocked over a candle and left the building without reporting the fire. The 6-story building had been used as a meat cold storage facility. It had no windows above the ground floor. Firefighters were unfamiliar with the layout of the building. Six firefighters died. <https://www.nfpa.org/News-and-Research/Publications-and-media/NFPA-Journal/2019/November-December-2019/Features/Worcester>

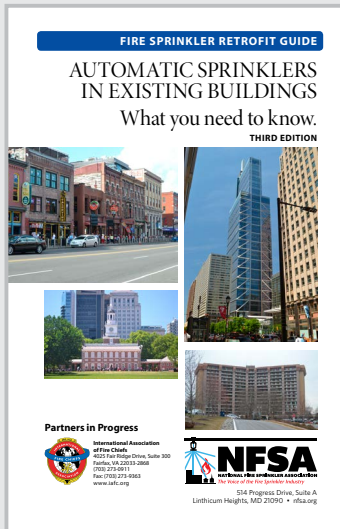
## Installed Fire Sprinklers

According to NFPA, 50 percent of reported manufacturing structure fires during 2010-2014 were protected by installed fire sprinklers. Twenty-nine percent of warehouses were protected and twenty-five percent of stores and offices were. "Sprinklers were effective at controlling the fire in 96 percent of fires in which they operated."

## Fire Sprinklers Offer These Benefits

- Prevent loss of life and injury to occupants
- Protect firefighters and other first responders
- Protect property and investment
- Prevent economic loss due to business interruption and closure
- Generate insurance savings and decreased liability risks
- Prevent potential unoccupied building danger/eyesore to community (post-fire)

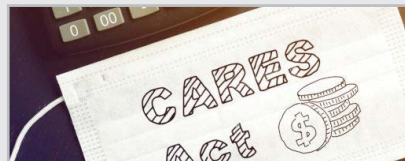
## Resources



[Automatic Sprinklers In Existing Buildings. What You Need To Know.](#)



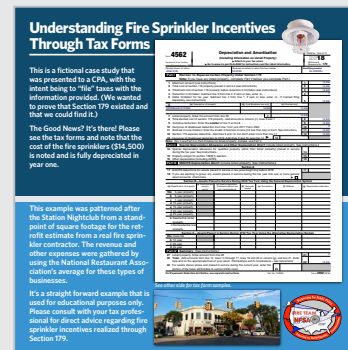
[NFSA videos](#)



[The Care Act Delivers New Fire Sprinkler Tax Incentives.](#)



[U. S. Experience With Sprinklers, NFPA Research](#)



[Sample Tax Form](#)



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