

Federal Law Incentivizes Business Owners to Retrofit their Buildings with Fire Sprinkler Systems

In August 2018 Congress passed federal tax reform legislation (P.L. 115-97) that contains significant federal tax incentives for business owners to install fire sprinkler systems in existing buildings. The Department of Public Safety, Division of Fire Safety is urging Vermont business owners to familiarize themselves with these tax incentives, which, among other things, allows business owners to deduct the cost of retrofitting properties with fire sprinkler systems as a Section 179 expense. According to the National Fire Sprinkler Association, previously qualified 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 \$1,000,000 as the amount that small businesses can deduct in a single year. This provision applies only to commercial structures and cannot be used for retrofitting sprinklers into residential structures. However, this tax policy increases the economic feasibility to occupancies such as businesses, restaurants, bars and other establishments to protect employees, customers, property and firefighters. In order to help Vermont business owners understand this tax law and existing Vermont tax credits, the following chart was created.

Assumed Federal Tax Rate**	25.0%	25.0%	25.0%
Assumed VT Tax Rate**	7.0%	7.0%	7.0%
Sprinkler System Cost	\$200,000	\$150,000	\$100,000
VT Tax Credit	(\$50,000)	(\$50,000)	(\$25,000)
Residual	\$150,000	\$100,000	\$75,000
Federal Tax Benefit	(\$37,500)	(\$25,000)	(\$18,750)
VT Tax Benefit	(\$10,500)	(\$7,000)	(\$5,250)
Effective Cost	\$102,000	\$68,000	\$51,000
Effective Discount	49%	54.6%	49%

**The above are general examples of potential savings for business owners. The Division of Fire Safety encourages business owners to take advantage of the important tax incentive and speak with a tax professional for all available federal and state tax incentives for fire protection system upgrades in existing buildings.

Qualified commercial buildings located in state designated downtown or village center may be eligible for additional state tax incentives for sprinklers and other code and building improvements. For more information contact: Vermont Agency of Commerce and Community Development: <https://accd.Vermont.gov/historic-preservation/funding/tax-credits>.

National Fire Sprinkler Association: <https://nfse.org/taxreform>

The above information comes from the Vermont Division of Fire Safety: <https://firesafety.vermont.gov>