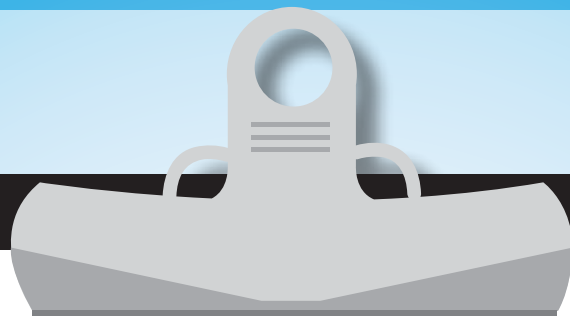




FIRE SPRINKLER TAX INCENTIVES - A GUIDE FOR THE FIRE SERVICE

Informing Commercial Property Owners About
New CARES Act Fire Sprinkler Tax Incentives
To Protect Lives and Property





TAX INCENTIVE FIRE SERVICE GUIDE

As members of the fire service, you know which small businesses and commercial buildings need fire safety improvements in your community. There has never been a better time to retrofit or upgrade fire sprinkler systems in existing commercial structures thanks to significant tax incentives included in [the Coronavirus Economic Stabilization Act \(CESA\) of 2020](#).

Building/business owners can now utilize changes made in recent federal tax reform bills to accelerate cost recovery for the installation, upgrade, or retrofit of fire sprinkler systems in their properties.

This guide provides information your local businesses need about the tax incentives and the importance of protecting their buildings, along with data and tools to help you communicate with business owners and other stakeholders.



TABLE OF CONTENTS

| | |
|---|----|
| Fire Sprinkler Tax Incentive Fact Sheet..... | 4 |
| Sprinkler Retrofit Examples..... | 6 |
| Why Existing Buildings Need Fire Sprinklers | 7 |
| Risk Assessment Worksheet..... | 10 |
| Sample Letter..... | 11 |
| Sample Press Release..... | 12 |
| Resources..... | 13 |



FIRE SPRINKLER TAX INCENTIVES 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).

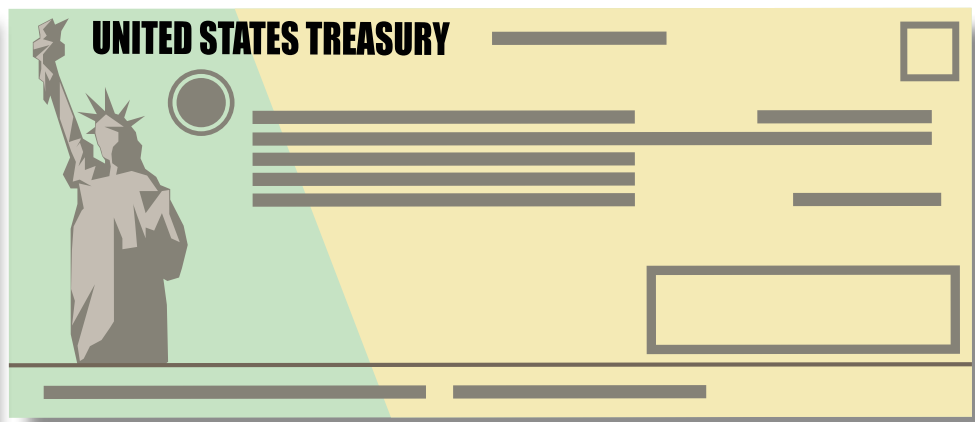
Tax Incentive: Small Business Section 179

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 Act \(CESA\) 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.

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

SPRINKLER RETROFIT EXAMPLES

In all the examples, the depreciation would have occurred over a period of 39 years prior to the new tax incentives.

Small Business Section 179 Fire Sprinkler Retrofit Examples

These are examples based on Section 179 of the U.S. Internal Revenue Code. The actual cost will be impacted by many variables, including the region of the country as it relates to the cost per square foot.



Nightclub Retrofit

- 7,500 square-foot assembly occupancy
- Cost to install fire sprinklers = \$6.00/sq.ft.
- Total \$45,000
- This small business can fully expense the cost.



Bowling Alley

- 20,000 square-foot assembly occupancy
- Cost to install fire sprinklers = \$4.50/sq.ft.
- Total \$90,000
- This business can also fully expense the cost.

Commercial High-Rise Retrofit Example Under Cost Recovery Section 13201

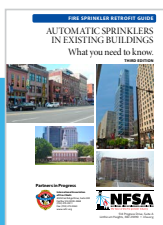


18-Story Commercial High-Rise Building:

- 26,000 sq.ft./Floor = 468,000 sq.ft.
- Cost to install fire sprinklers = \$6.50/sq.ft.
- Total \$3,042,000
- Retrofitting the fire sprinkler system can be fully expensed for the first 5 years. Beyond this 5-year window, costs can be recovered in the following manner:

| Year | Depreciation |
|------|--|
| 6 | 80% |
| 7 | 60% |
| 8 | 40% |
| 9 | 20% |
| 10+ | The depreciation schedule is permanently set at 15 years |

After year 10, it will depreciate on a 15-year schedule (not the previous 39-year schedule).



Resource: *Automatic Sprinklers In Existing Buildings: What You Need To Know (Third Edition)*

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 fireground injuries occurred (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 percent increased cancer rate diagnosis and 14 percent 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/>

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.

Percentage of Commercial Facilities Protected by Fire Sprinklers



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)



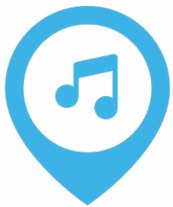
Impact on Local Business

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 jobs lost.



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 include the loss of municipal utility and tax revenue.



West 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/>



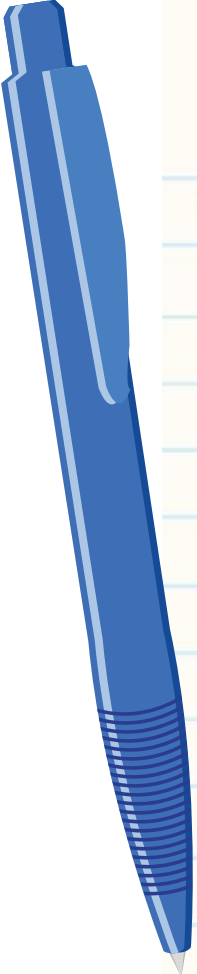
Worcester, MA, Cold Storage Building Fire (1999):

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 six-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>

FIRE SERVICE GUIDE

Complete a Risk Assessment

Use this form to find out what your community's risk factors are and to plan out action steps to reduce that risk.

- 
1. Identify all commercial buildings in your district that are not protected with fire sprinklers.
 2. Determine building-related stakeholders:
 - Property owners
 - Property managers
 - Small business owners
 - Small business owner tenants {Explain that sprinklers will protect their employees, product, etc., and lower their insurance costs}
 3. Determine additional community stakeholders:
 - Elected officials
 - Community and economic development committees
 - Landmark/preservation organizations
 - Chambers of Commerce
 - Real estate professionals
 - Public works officials
 - Tax advisors
 - Local affiliate of American Institute of Certified Public Accountants
 - Local media
 4. Prepare local data and case studies/testimonials
 - Present facts and data from fires in your district.
Include the following:
 - Type of building
 - Details about fire: cause, amount of damage, injuries or deaths, fire department response
 - Time frame from date of fire to when property was back in business
 - Businesses and tenants impacted
 - Photos
 - Quotes/comments from people impacted

Sample Letter

Customize this letter for business and property owners identified in your risk assessment. Consider modifying the letter for other stakeholders including:

- Local Chamber of Commerce
- Community and economic development committees
- Landmark/preservation organizations
- Municipalities, decision makers, elected officials
- Real estate professionals
- Tax advisors

Dear {Stakeholder}:

Fire is destructive to our community. That's why the {Name Fire Department} invests in Community Risk Reduction efforts to keep {Jurisdiction} as safe from fire as possible. But it does happen, and too often. When it does, it has devastating consequences that impact all of us.

No community is immune. Nationally, property fires cost more than \$10 billion per year, causing 2,844 civilian deaths and 12,812 injuries (NFPA). Mercantile and business properties had an annual average loss of nearly \$850 million during 2014-2018. It's no surprise that nearly 40% of small businesses never reopen their doors after a disaster (FEMA). {Include local data here}

Fortunately, there is new help available for business and commercial properties, including {Customize w/type of structure for this stakeholder}. Recently, federal tax reform legislation created incentives that make it more affordable for building and business owners to accelerate cost recovery for the installation, upgrade, or retrofit of fire sprinkler systems. This is a valuable opportunity to improve the life safety and economic stability of {Jurisdiction}.

According to the U.S. Fire Administration, "[Fire sprinkler systems are the only tool that can reduce the spread of fire, heat and smoke in a building and contain the fire until the fire department arrives. This provides valuable time for employees and customers to escape a fire.](#)"

Please read the enclosed Tax Incentives Fact Sheet. It has current information to help you learn how {Your Business/Businesses in our community} can take advantage of this valuable federal opportunity.

If you have any questions, please let me know. Working together, we can leverage federal tax savings to make {Jurisdiction} a safer, more stable and economically viable community.

Sincerely,

{Name}

Press Release

Customize this press release for your local media. Identify reporters who focus on business or real estate topics.

Consider adding the following information:

- Economic data from a fire in your community including lost tax revenue, closed businesses, length of time to rebuild.
- Quote from the fire chief about protecting firefighters.



FOR IMMEDIATE RELEASE

CARES Act Includes Significant Tax Incentives That Allow Commercial Property Owners to Retrofit their Buildings With Fire Sprinklers

{Name Fire Department} is encouraging commercial property owners in their district to learn more about significant tax incentives included in [the Coronavirus Economic Stabilization Act \(CESA\) of 2020](#) that allows commercial property owners immediate cost recovery for retrofitting fire sprinklers in their buildings. Fire sprinklers prevent the spread of fire, protecting employees, patrons, first responders and property.

According to the {Name Fire Department}, fires in commercial properties that are not protected with fire sprinklers have a negative impact on the community causing economic loss due to business interruption and closure. The results can include lost sales and tax revenues and irreplaceable property. Fire can permanently close a business and may result in the loss of local jobs. Rebuilding takes time, leaving unsightly and potentially dangerous structural debris that mars the community. Protecting a building with fire sprinklers can generate insurance savings and decreased liability risks.

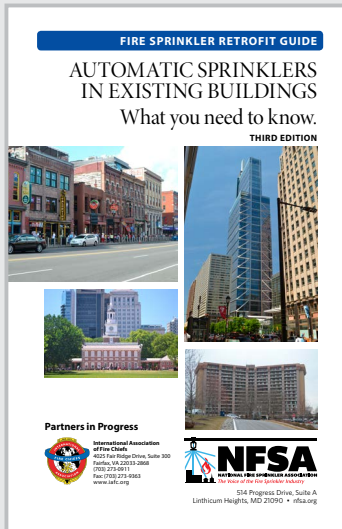
{Insert local information about commercial fire}

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.

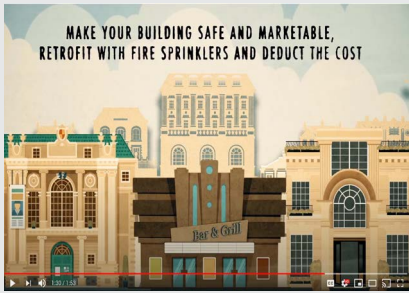
Three years ago, legislation was passed specifically for small businesses to write off the full cost of fire sprinkler systems as an expense up to \$1.04 million. Critical occupancies such as entertainment venues could easily be protected under this provision.

Business and property owners are encouraged to contact their tax advisors for more information.

RESOURCES



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



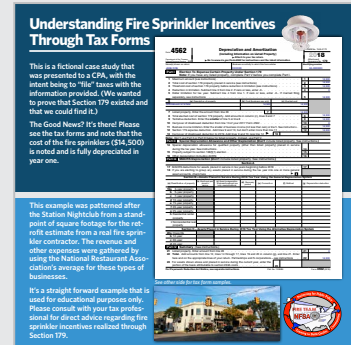
[NFSA videos](#)



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



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



[Sample Tax Form](#)



[Contact NFSA to learn more or to find a qualified fire sprinkler contractor.](#)

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