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## New Tax Law Provides Economic Benefits for Retrofit Fire System Installations

The CARES Act recently passed by Congress allows businesses to accelerate expensing of retrofit fire sprinkler systems.

In the event of a fire, the benefits of automatic sprinklers are clear. According to the National Fire Protection Association, automatic sprinkler systems in buildings reduce the death rate by 87% compared to buildings without sprinklers. With automatic sprinklers, flame damage is limited to the room of origin in 97% of fires compared to 74% of fires in buildings without them. Automatic sprinklers can qualify commercial building owners for property insurance premium reductions. However, many sprinkler system upgrade and retrofit projects never come to fruition due to the lengthy depreciation periods of the projects' costs.

However, the CARES (Coronavirus Aid, Relief, and Economic Security) Act corrects a drafting error that stopped larger businesses, which typically have higher sprinkler system costs, from enjoying the 2017 Tax Cuts and Jobs Act's (TCJA) Federal tax savings. The CARES Act recently passed by Congress allows businesses to accelerate cost recovery for the installation, upgrade, or retrofit of fire sprinkler systems in their properties. The changes allow substantial costs of these retrofit fire protection improvements (not to exceed \$1 million annually and \$2.5 million spending limit) to be expensed in the same year that they are incurred rather than over the thirty-nine year period previously required. This provision is available in-full through 2022. Beginning in 2023, the portion permitted to be expensed will be reduced by 20 percent annually. Beginning in 2027, costs of retrofit sprinkler projects must be depreciated over 15 years.

Starting in 2019, the TCJA's original \$1 million deduction allowance and \$2.5 million spending limit are subject to adjustment for inflation. The current allowance is \$1.04 million, and the spending limit is \$2.59 million. Those who borrow money to pay for a project can fully deduct the interest expense of the loan, as well. However, this change does not allow for the full deduction of sprinkler system retrofits when converting commercial buildings into residential uses.

These recent changes in the federal tax law may make retrofit sprinkler system projects more economically viable for commercial building owners. WJE's fire protection engineers are available to consult with clients about planning, budgeting, and designing such systems.

*This article does not constitute tax advice. Please consult with your tax professionals to determine the applicability of this legislation to your specific organization.*

