



Department of Public Safety

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New federal law incentivizes business owners to retrofit their buildings with fire sprinkler systems.

August 6, 2018 – The recently passed federal tax reform legislation (P.L. 115-97) 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. These federal tax incentives will sunset on December 31, 2022. According to NFSA (National Fire Sprinkler Association), previously qualified small 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 million as the amount that small business 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 new tax policy increases the economic feasibility for occupancies such as businesses, restaurants, bars, and other establishments to protect employees, customers, property, and firefighters.

A report released in July 2017 by NFPA (National Fire Protection Association) regarding performance and effectiveness of sprinklers found the following facts:

Sprinklers systems that are maintained, help protect property and life. In 2010-2014 sprinklers were present in 10% of reported U.S. fires. The death rate per 1,000 reported fires was 87% lower in properties with sprinklers than in properties without them. The civilian injury rate was 27% lower, and the firefighter injury rate was 67% lower. In fires considered large enough to activate the sprinkler, sprinklers operated 92% of the time. Sprinklers were effective in controlling the fire in 96% of the fires in which they operated. In three of every five (59%) incidents sprinklers failed to operate because the system had been shut off.

In order to help Vermont business owners fully understand this new tax law and existing Vermont tax credits, the following chart was created:



Assumed Federal Tax Rate **	25.00%	25.00%	25.00%	25.00%	25.00%
Assumed VT Tax Rate **	7.00%	7.00%	7.00%	7.00%	7.00%
Sprinkler System Cost	\$200,000	\$150,000	\$100,000	\$100,000	\$75,000
VT Tax Credit	(\$50,000)	(\$50,000)	(\$50,000)	(\$25,000)	(\$15,000)
Residual	\$150,000	\$100,000	\$50,000	\$75,000	\$60,000
Federal Tax Benefit	(\$37,500)	(\$25,000)	(\$12,500)	(\$18,750)	(\$15,000)
VT Tax Benefit	(\$10,500)	(\$7,000)	(\$3,500)	(\$5,250)	(\$4,200)
Effective Cost	\$102,000	\$68,000	\$34,000	\$51,000	\$40,800
Effective Discount	49%	54.67%	66%	49%	45.60%

**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 within a 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: Vermont Agency of Commerce and Community Development: <http://accd.vermont.gov/historic-preservation/funding/tax-credits>

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

National Fire Protection Association- U.S. Experience with Sprinklers: <https://www.nfpa.org/News-and-Research/Fire-statistics-and-reports/Fire-statistics/Fire-safety-equipment/US-Experience-with-Sprinklers>

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