New Tax Incentives for Security and Fire Protection Systems

Take advantage of the NEW $1 million tax benefit by investing in security and life safety measures

The Tax Cuts and Jobs Act (P.L. 115-97) signed into law on Dec. 22, 2017, included two important changes to the U.S. tax code providing incentives for businesses to invest in new security, fire protection and alarm systems. These incentives were part of the broader effort in the new law to produce long-term economic growth by encouraging business to make capital investments.

Generally, the costs of commercial-use security, fire protection and alarm systems are capitalized and depreciated over a recovery period of five, seven, 15 or 39 years, dependent on factors such as the type of system purchased, the integration within a building structure, whether the installation involves owned or leased property, and the relationship to business activity.

Beginning in 2018, the new tax law allows many businesses to write off the full cost of such systems as an expense for the tax year they were placed in service, eliminating the capitalization requirement.

Section 179 Expensing

Previously, small- and medium-sized businesses could deduct most business-related equipment placed in service during a year, up to $500,000 not exceeding taxable income (subject to carryover rules).

For the first time, and on a permanent basis, security systems and fire protection and alarm systems are now treated as qualifying Section 179 property under the law, despite being considered building improvements (real property). See 26 U.S. Code § 179.

Additionally, businesses can now deduct up to a total of $1 million in purchases that qualify for Section 179, doubling the dollar limit. This deduction phases out on a dollar-for-dollar basis after a business has $2.5 million in total qualifying purchases, reaching zero at $3.5 million. After 2018, the increased limit and phaseout threshold are indexed to inflation.

Beginning in 2018, qualifying businesses can now deduct the costs of new security and fire protection systems, up to a total of $1 million under Section 179, which were not eligible prior to the new law.

Now qualified:

- **Fire-protection and alarm systems**, including sensing devices, computer controls, sprinkler heads, sprinkler mains, associated piping or plumbing, pumps, visual and audible alarms, alarm control panels, heat and smoke detection devices, fire escapes, fire doors, emergency exit lighting and signage, and fire-fighting equipment, such as extinguishers and hoses
- **Security systems** for the protection of the building and its occupants, including window and door locks, security cameras, recorders, monitors, motion detectors, security lighting, alarm systems, entry and access systems, related junction boxes, associated wiring and conduit

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Disclaimer: *Business tax deductions are complicated. The information included here is intended for general information only and is not intended to be tax or legal advice. Please consult your tax professional before making business decisions that could affect your tax situation. Each business situation is different and tax regulations change frequently.*

Security Industry Association
securityindustry.org

Section 179 Example:

Purchase: Fire alarm system for a 100,000-square-foot office building

Business Type: Sole proprietorship

	Previous	New Law
Total Material and Install Cost	$60,000	$60,000
Year One Deduction (of 39-year recovery period)	$1,538	$60,000
Cash Savings on Purchase (assuming 35% tax bracket)	$538	$21,000
Lowered Up-Front Cost	$59,462	$39,000

"Bonus" Depreciation

The new law temporarily extends accelerated depreciation to 100 percent (regardless of business size) for qualifying property — generally, tangible property with a recovery period of up to 20 years. Beginning in 2022, this accelerated depreciation is reduced with a phaseout complete by 2027. See 26 U.S. Code § 168(k).

Bonus Depreciation Available by Year

2018 – 100%	2021 – 100%	2024 – 60%
2019 – 100%	2022 – 100%	2025 – 40%
2020 – 100%	2023 – 80%	2026 – 20%

Certain security and life-safety products may qualify for bonus depreciation based on the length of the applicable recovery period, which tends to be less when use is related directly to the primary commercial activity of a business.

Bonus Depreciation Example:

Purchase: Video surveillance system for an electronics retail establishment (16 IP security cameras with 2TB data storage used to monitor and protect inventory and minimize shrinkage from theft)

Business Type: Sole proprietorship

	Previous	New Law
Total Material and Install Cost	$10,000	$10,000
Year One Deduction (of 5-year recovery period)	$2,000	$10,000
Cash Savings on Purchase (assuming 35% tax bracket)	$700	$3,500
Lowered Up-Front Cost	$9,300	$6,500

Certain improvements to the interior of a building may qualify under the new law's definition of Qualified Improvement Property (QIP). However, Congressional action is expected early 2018 to clarify that QIP is bonus-eligible, as this was not explicitly stated in the new law. Once corrected, a wider range of security and life-safety products are expected to qualify.

Why Does This Matter?

- After-tax system cost is reduced by offsetting it with the tax savings generated.
- Accelerated depreciation provides additional cash flow by freeing up money today that could be used for another purpose important to the business.As such systems are typically large expenditures; being able to recover these costs more quickly helps growing businesses expand their capital assets.

Special Note:

- The property must be purchased and put into service in the year in which the deduction is claimed.
- Claiming Section 179 deduction is a voluntary election, while bonus depreciation can be declined but requires a taxpayer to follow opt out procedures.
- When replacing an old system, any remaining depreciation can be deducted in the tax year it is replaced (subject to fixed asset disposal accounting rules).