



What Does the CARES Act Mean for Your BMS Upgrades?

Qualified Improvement Property (QIP) is the term used by the Internal Revenue Service to describe most interior improvements made to a commercial building.

■ Why is it important?

Since the passing of the Coronavirus Aid, Relief, and Economic Security (CARES) Act in early April 2020, QIP tax law has become a dominant and important topic of conversation in the business world. This change will result in big incentives to commercial property owners who are looking to do renovations. It allows for an immediate tax deduction of 100% of the cost for many kinds of property improvements.

■ Sounds great, but why is this just now happening?

This change was meant to be implemented in the 2017 Tax Act, but due to a drafting error, the QIP tax law reverted to dated legislation that required property improvements to be written off over a period of 39 years. This did not give property owners much incentive to make improvements considering that prior to the 2017 Tax act, building owners were able to write off up to 50% of the cost for property improvements in a single year and depreciate the remaining 50% over just 15 years. As you can imagine, businesses and energy advocates have been working with legislators to make this correction ever since the law's passing and with the recent bipartisan CARES Act legislation, the issue was corrected.

■ Can property owners apply this new law to property improvements made prior to April 2020?

Yes. Since this was a retroactive law change, property owners may be able to file an amended return for the 2018 and 2019 tax years to receive a refund.

■ So, what improvements qualify under the new QIP tax law?

QIP, with the passing of the CARES Act, now includes any improvement made to an interior portion of a commercial building after the original date that the building was put into service. QIP does not cover things like building expansion, any elevator or escalator related renovations or improvements to the framework of the building. Long story short, among other things, controls improvements are fair game to qualify for this QIP tax cut! Some new qualifying items that were added with the recent legislation are roofs, fire protection, alarm systems and security systems.

Let's see the numbers.

What kind of tax savings could we see?

Assumptions:

- Improvement to inside of structure costs \$1,000,000
- All costs qualify as QIP
- Tax rate = 21% (Corporate tax rate)
- No tax loss carry forwards to reduce taxable income
- State income tax is not considered
- Taxable income is \$2,000,000

Pre-CARES Act:

2020 taxable income without QIP investment:	\$2,000,000
2020 depreciation of QIP under pre-CARES tax law	-\$25,641
Federal taxable income under pre-CARES tax law	\$1,974,359
Federal income tax under Pre-CARES tax law (21%)	\$414,615
Net income after Federal income tax under Pre-CARES law	\$1,585,385

CARES Act:

2020 taxable income without QIP investment:	\$2,000,000
2020 depreciation of QIP under CARES tax law	-\$1,000,000
Federal taxable income under CARES tax law	\$1,000,000
Federal tax under Pre-CARES tax law (21%)	\$210,000
Net income after Federal tax under Pre-CARES law	\$1,790,000

Increase in net income \$1,790,000 - \$1,585,385 = **\$204,6155**

Net cost of QIP investment under pre-CARES Act law:

Cost of QIP	\$1,000,000
Tax benefit	\$5,385
Net after-tax cost of QIP pre-CARES Act	\$994,615

Net cost of QIP after CARES Act law:

Cost of QIP	\$1,000,000
Tax benefit	\$210,000
Net after-tax cost of QIP after CARES Act law	\$790,000

*This illustration is intended to represent a generic economic benefit scenario for a hypothetical business taxpayer. The illustration should not be relied upon by businesses as representing actual benefit without regard to a taxpayer's specific, complete tax profile. A tax advisor should be consulted to evaluate actual benefit.

What's next?

Work with your tax advisor regarding upcoming or recent property improvements to see if they qualify for the new tax advantages under the updated QIP tax law. If you have been postponing your commercial property improvements, now may be the time to get started!

Reach out to your Distech Controls Regional Sales Manager at sales@distech-controls.com to learn about what BMS solutions will work for your project.