What facility managers need to know about the 2020 CARES Act tax benefits

Write off 100% of qualifying facility improvement costs

It may seem surprising, given the economic uncertainty caused by the pandemic, but right now is an excellent time to invest in non-residential facility upgrades.

Here's why: When you invest in upgrades — e.g., install a new HVAC system — you get a tax deduction for the project costs. In the past, this deduction was taken over a 39-year period, resulting in a 2.5 percent write-off each year.

That's now changed. The 2020 Coronavirus Aid, Relief, and Economic Stability (CARES) Act allows a full deduction of certain project costs in a single year, without limitation on the size of the project. If you've been waiting for the right time to make major facility upgrades, the wait is over.

What facilities qualify for the full deduction?

Qualified improvement properties (QIPs), including:

- Hospitals and healthcare facilities
- Office buildings
- Factories and plants
- Logistics facilities
- Any other non-residential property

What facility upgrades can benefit from the accelerated deduction?

Non-structural upgrades (including both equipment and installation costs) to the interior envelope of existing facilities, including:

- Building management systems
- Sensors, valves, actuators, and other HVAC devices
- Uninterruptible power supplies, switchgear, and other electrical distribution equipment

What isn't included in QIPs?

- New construction
- Upgrades to the facility's structure (e.g., expansions, remodeling, etc.)
- External envelope of the building (e.g., windows, doors, roof, cladding)
- Residential structures
- Certain equipment (e.g., elevators)

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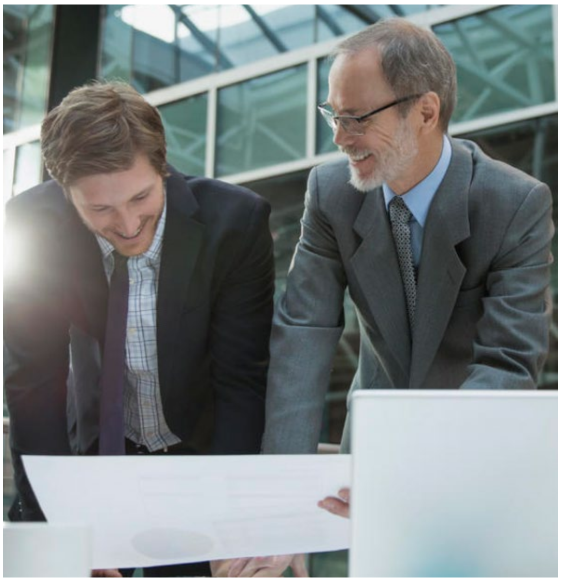
What else do you need to know about the Section 168 deduction?

- There's no limit on the cost of equipment that can be expensed.
- You can combine it with other incentives, such as renewable energy tax credits and utility rebates, for extra savings.



Example cash savings of a QIP project cost

A fictional hospital invests $1,000,000 in a digital building management system upgrade, including new smart devices (e.g., sensors, room controllers, valves, actuators). The chart shows the tax benefits before and after the changes the CARES Act made to Section 168 of the tax code. The benefit of the accelerated depreciation results in a cash savings of $204,615 in year one.[1]

Impact of the CARES Act on the Section 168 deduction	Section 168 before CARES Act	Section 168 as amended by the CARES Act
Total project cost (equipment and installation)	$1,000,000	$1,000,000
First year tax deduction	$25,641	$1,000,000
Corporate tax rate	21%	21%
Tax savings in year one	$5,385	$210,000
Net project cost in year one	$994,615	$790,000

Major financial ROI implications

Modernization and energy efficiency upgrades typically pay for themselves in a few years. Our own analysis of our customers' projects found that digitization projects led to returns on investment (ROI) of 5.3 years, on average.[2] The amended Section 168 unlocks a 21 percent cash savings on top of the typical cost savings from facility improvements, which can lead to dramatically faster ROIs.

1 This example is fictional, not a guarantee of actual savings, and is not intended to be tax or legal advice. Tax calculations are complex; consult your tax advisor for more specific guidance.

2 "Global Digital Transformation Benefits Report," Schneider Electric, 2019.

Discover how we can help you take advantage of the CARES Act incentive.

Contact us

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