Equipped for the job

NRCA backs legislation to enact a uniform depreciation period for energy-efficient building improvements

BY DUANE L. MUSSER

NRCA supports federal tax policy that leads to greater economic growth within the roofing industry and is advocating for bipartisan legislation, the Energy Efficient Qualified Improvement Property (E-QUIP) Act, that will incentivize energy-efficiency investments in commercial and multifamily buildings.

Almost two decades ago, NRCA began working with lawmakers to develop legislation that would reform depreciation for nonresidential roof systems with a proposal to update the schedule to a more realistic 20-year cost recovery. However, for many years, Congress merely extended existing tax policies without making significant changes to depreciation schedules. Thus, despite substantial bipartisan support within Congress for depreciation reform for nonresidential roof systems, little progress was made in this area.

Background

Spearheaded by Reps. Brad Schneider (D-Ill.) and Tom Rice (R-S.C.), the E-QUIP Act proposes a uniform 10-year depreciation period for building improvements that meet certain energy-efficiency standards, including nonresidential roof systems. Depreciation only applies to nonresidential roof systems and roof systems on multifamily buildings; there is no depreciation for residential roof systems on houses not used as investment property. By providing for accelerated cost recovery within the tax code, the act would simplify a series of complicated rules for building energy-efficiency measures and cost-recovery rules that vary widely. This patchwork of rules discourages business owners from making energy-efficiency investments and dampens technological innovations needed to modernize U.S. building infrastructure and reduce energy consumption.

For nonresidential roof systems, the E-QUIP Act would provide an alternative to the current outdated 39-year depreciation schedule. NRCA has worked for many years to educate lawmakers regarding the need to reform this provision of the tax code given its adverse effect on the roofing industry.

Between 1981 and 1993, the cost-recovery mechanism for nonresidential real property was increased by Congress from 15 years to 39 years. However, the 39-year schedule is not a realistic measure of the average life span of roof systems, which a study commissioned by NRCA found to be about 17 years. Given the disparity between cost recovery and the life of the asset, the 39-year depreciation schedule acts as an obstacle to building owners replacing failing roof systems in a timely manner, slowing economic activity in the roofing industry.

Working toward a solution

Despite NRCA's many efforts to work with lawmakers to update the current depreciation schedule to a more realistic 20-year cost-recovery period, Congress merely extended existing tax policies without making significant changes to depreciation schedules for many years. As a result, little progress was made regarding the depreciation schedule for nonresidential roof systems despite substantial bipartisan support within Congress.

The trend changed with the Tax Cuts and Jobs Act of 2017, the most comprehensive tax reform legislation in 30 years. Through NRCA's advocacy, the new law expanded the definition of qualified real property eligible for full expensing under Section 179 of the tax code to include improvements to nonresidential roof systems. Section 179 allows certain taxpayers to immediately expense the cost of qualifying property in the year the asset is placed into service rather than recovering such costs over multiple years through depreciation. The Tax Cuts and Jobs Act also expanded Section 179 so the maximum amount a business may expense annually increased to $1 million and the phase-out threshold increased to $2.5 million and indexed these figures to inflation.

Having nonresidential roof systems added as qualifying property for Section 179 in the Tax Cuts and Jobs Act was the culmination of NRCA's years of efforts to educate lawmakers about the issue. As a result, qualifying taxpayers may now elect to fully expense the cost of improvements to nonresidential roof systems in the year they are placed in service rather than depreciating them over 39 years for tax purposes. Under the inflation adjustments issued by the IRS for 2021, the maximum amount that can be fully expensed is $1,050,000, and the deduction for full expensing is phased out on a dollar-for-dollar basis for businesses with total equipment purchases of more than $2,620,000 during the year.

Despite this improvement in the tax code, the outdated 39-year depreciation schedule remains in effect for taxpayers that do not qualify for Section 179. In the wake of the major tax reform enacted in 2017, NRCA has been looking for other opportunities to pursue further reform of the depreciation schedule for nonresidential roof systems.

NRCA now is working to advance the E-QUIP Act to further reform depreciation policy. As noted, the act would simplify complex depreciation rules with a uniform 10-year depreciation period for energy-efficient building improvements that achieve energy savings beyond baseline energy codes. It has a five-year duration of incentive and applies to improvements in commercial buildings as well as multifamily buildings subject to the same energy code requirements. For most building components, high-performance standards are pegged to the latest version of the International Green Construction Code.®

Beneficial legislation

By facilitating more energy-efficient retrofits of aging and obsolete roof systems and other building components in nonresidential buildings with state-of-the-art systems, the E-QUIP Act will provide numerous benefits. An analysis by the American Council for an Energy-Efficient Economy estimates the act would result in $15 billion in energy savings and a net increase of 130,000 jobs.

The E-QUIP Act is a smart economic, energy, infrastructure, environmental and jobs policy with bipartisan support. NRCA is working to have the bill included as a component of any infrastructure package or other legislation designed to sustain full recovery of the U.S. economy that is considered by Congress this year.

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