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Impact of Tax Cuts and Jobs Act

Dear Construction Professional,

Great news for re-roofing projects! The Tax Cuts and Jobs Act approved by Congress in December 2017 includes a provision that reduces the overall cost associated with re-roofing projects and significantly improves the cost-effectiveness of commercial roof replacements that comply with building energy codes. This is important news for several reasons:

- Allows businesses to deduct depreciable business equipment – including the cost of re-roofing projects – as an immediate write-off against that year's earnings, up to the full replacement cost.
- Permits businesses to deduct the full cost of their roof replacement in the year completed instead of depreciating over 39 years, as was required under previous law.
- Shortens the average payback period on the cost of installing code-required insulation by 3.5 years: from 11.6 years to 8.1 years, a 21% net savings.
- Raises maximum amount a business may expense to $1 million and increases phase-out threshold to $2.5 million.

Following is more information about Section 179 and the provision to add nonresidential roofs as qualifying property as of Jan. 1, 2018. This information will help you determine if your customers may be eligible for this preferential tax treatment for improvements to their nonresidential roofs.

Section 179: Section 179 allows taxpayers to immediately expense the cost of qualifying property rather than recovering such costs over multiple years through depreciation. The Tax Cuts and Jobs Act significantly expands the expensing limits under Section 179, with the maximum amount a business may expense now set at $1 million and the phase-out threshold increasing to $2.5 million. These new limits are effective for qualifying property placed in service in taxable years beginning after Dec. 31, 2017, and the amounts will be indexed for inflation starting in 2019.

Addition of Roofs as Qualifying Property: The Tax Cuts and Jobs Act expands the definition of qualified real property eligible for Section 179. As of Jan. 1, 2018, qualifying property for Section 179 includes "improvements to nonresidential real property placed in service after the date such property was first placed in service: roofs; heating, ventilation, and air-conditioning property; fire protection and alarm systems; and security systems.">

Given these changes to Section 179 under the new tax law, qualifying taxpayers may now elect to fully expense the cost of any improvements to nonresidential roofs beginning in 2018 and in future years. Essentially, any improvements to nonresidential roofs, including full re-roofs of existing buildings, may now be expensed in the year of purchase by any taxpayer eligible to deduct expenses under Section 179.

Please contact your tax professional if you have questions regarding how your customers can take advantage of this more favorable tax treatment for improvements to nonresidential roofs in 2018. For additional resources, please visit the NRCA and PIMA websites.

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