Wait, what is “QIP”?

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?

QIP is a hot tax topic of conversation in the business world right now since the passing of the “Coronavirus Aid, Relief, and Economic Security Act” (CARES Act) in early April 2020 provided a much-needed change to QIP tax law. This change will result in big incentives to commercial property owners who are looking to do renovations, as 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 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, interior lighting and 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 are we looking at?

Assumptions:

Improvement to inside of structure costs $1,000,000

All costs qualify as QIP

Tax rate = 21% (Corp 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 law:

2020 taxable income without QIP investment:	$2,000,000
2020 federal 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	$414,615
Profit after Federal income tax under Pre-CARES law	$1,585,385

CARES Act Law:

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 CARES tax law	$210,000
Profit after Federal tax under CARES law	$1,790,000

Illustrated Savings resulting from CARES Act QIP

Pre-Cares profit	$1,585,385
Profit under Cares Act QIP bonus depreciation	$1,790,000
Increase in profit	$204,615

Net cost of QIP investment under Pre-Cares law:

Cost of QIP	$1,000,000
Tax benefit	$5,385
Net after tax cost of QIP under Pre-CARES law	$994,615

Net Cost of QIP after CARES Act law:

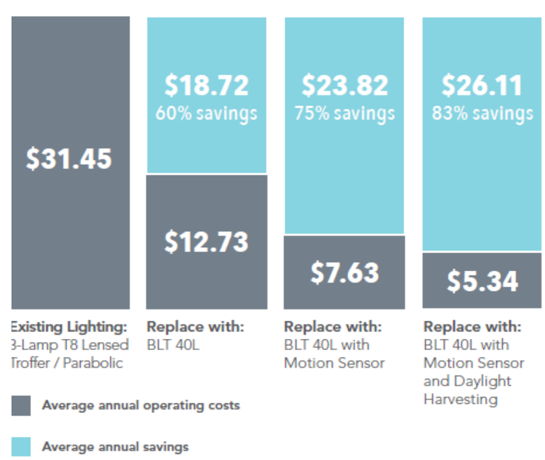
Cost of QIP	$1,000,000
Tax benefit	$210,000
Net after tax cost of QIP under CARES Act law	$790,000

*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.

How can I save more?

When you include lighting and lighting controls in your property improvement plan, you could see huge savings in your energy and maintenance costs in addition to the new QIP tax savings. As the largest lighting and lighting controls manufacturer in North America, Acuity Brands® can help you maximize your savings. Here is an example of how changing out your existing 3-lamp T-8 troffer to a Lithonia Lighting 40-lumen BLT troffer with nLight occupancy sensing and daylight harvesting can save you 83% on your energy costs!

Renovation Example



Figures are based on conversion from existing 84W 3-Lamp, T8 lensed troffer and parabolic luminaries to new 34W Lithonia Lighting® BLT LED troffers. Savings estimates assume $0.10/kWh utility rate, operating 12 hours a day, 6 days a week. Savings also estimate projected typical control system perfor-mance, and typical lamp/ballast replacement and labor costs. Actual savings, may differ as a result of product cost, end-user environment, and application. Financial analysis completed using Visual™ Economic Tool.

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 Acuity Brands salesperson to learn about what lighting and controls products will work for your project.

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