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The 2020 CARES Act— Tax Benefits for HVAC Upgrades

The recently-passed Coronavirus Aid, Relief, and Economic Security or “CARES” Act contains several **significant tax changes for businesses**. One of these tax changes may benefit non-residential building owners interested in investing in HVAC mechanical system upgrades and replacements, and when combined with utility rebates, could further offset equipment costs.

What has changed in the tax laws?

Pursuant to the CARES Act, the cost of HVAC equipment and system components made to the interior of a building, among other items, **which are considered “qualified improvement property” or QIP under IRS tax code Section 168**, can now be fully deducted for tax purposes in the first year it’s placed in service versus over a 39-year period. For commercial buildings, the cost of HVAC equipment and Building Automation Systems installed or upgraded in 2020 may be fully deducted as a business expense, and there is no stipulated limitation on the cost that may be expensed.

Key details of CARES Act benefits

- Allows a tax deduction for the full amount of equipment and installation labor costs that are considered improvements to the interior of a non-residential or commercial building (new construction and enlargement to the building do not qualify.)
- There is no limitation on the cost of equipment that can be purchased.
- Can be combined with utility rebates to offset equipment cost.
- Is retroactive for QIP costs incurred back to January 1, 2018.

How could these tax changes impact your business?

Aging or inefficient mechanical systems are one of the largest costs to a facility and are often costly to retrofit or replace. Additionally, with the current health crisis, many building owners are considering upgrading their HVAC systems to improve indoor air quality through supplemental air cleaning services and technologies.

Taking advantage of extra after-tax cash flow and utilizing additional rebate programs for upgrading systems can make the process easier and less expensive.

Together with these tax changes, upgraded, more energy-efficient systems may yield:

- **Increased ROI** for new capital expenditures
- **Reduced payback period** for capital investments
- **Even deeper savings** when combining these benefits with additional local energy incentive programs
- **A depreciation bonus** of 100% of the equipment and installation cost this calendar year

Havel can help you navigate and execute your HVAC and mechanical equipment or system options, but for specific questions about the new tax laws, please consult your tax advisor.