Roofing
THE INDUSTRY'S VOICE

Tax Cuts and Jobs Act a Big Victory for Roofing

MAY 20, 2018 BY CRAIG BRIGHTUP LEAVE A COMMENT

Recent legislation is expected to provide a boost to the commercial roofing industry. A commercial roofing application of Lapolla FOAM-LOK spray foam roofing is shown here. Photo: Icynene-Lapolla

2017 proved a significant year for the roofing industry. Not only was optimism high and demand still on the uptick in both the new construction and re-roofing marketplaces, but when The Tax Cuts and Jobs Act of 2017 passed in December last year, it marked a huge victory for those involved in roofing. The tax reform essentially opened the door for a series of tax related benefits likely to boost business in 2018 and beyond.

There are a few key areas of the tax reform applicable to roofing entities. One of the key sections — IRC Sec. 179 expensing provision (deduction) — intends primarily to benefit small businesses who can purchase equipment, then write-off the amount of those purchases during the same calendar year. For 2018, qualifying property purchases include most business equipment such as computers, certain vehicle types, virtually all construction equipment and machinery.

"For contractors in our sector specifically, this portion of the reform is key, as it allows them to write off the equipment and vehicles they purchase specific to transporting and installing spray foam roofing on the jobsite," says Kurt Riesenberg, executive director of the Spray Polyurethane Foam Alliance (SPFA). "Some of our members have been quite pleased to learn about these tax changes, and although we worked hard with other groups to make them happen they still seem like one of the best kept secrets. We need to change that so all of our members know about them."

Perhaps one of the most notable aspects of IRC Sec. 179, however, is that the qualified property listed under it now includes non-residential roofs. Hailed as a huge win, the new limit on the total amount of Sec. 179 property that a business can purchase each year before being totally phased out is $2.5 million (up from the previous $2 million), and the annual limit for the deduction itself has been raised to $1 million (up from $500,000). A property owner is now able to write off up to $1 million the same year that a commercial roof is purchased. Additionally, the $1 million annual deduction and $2.5 million business investment limit are now permanent and indexed for annual inflation starting in 2019.

"The commercial roof inclusion in the tax reform is likely to spur increased sales and installations of new roofs this year, and we want our members making the most of the opportunity," adds Riesenberg.

There was one tradeoff made in order to make commercial roofs eligible for Sec. 179 — the elimination of the deduction for the interest on loans to finance the purchase. However, it's still a significant benefit for contractors able to leverage IRC Sec. 179's equipment purchase write-off.

Bonus Depreciation Deduction

Another key area of note is IRC Sec. 168(k) — the Bonus Depreciation Deduction — which the act raises to 100 percent for qualifying new and used property acquired, and placed in service, after September 27, 2017 and before January 1, 2023. Property with a depreciable tax life of 20 years or less generally qualifies and includes: machinery and equipment, furniture and fixtures, computers and computer software, and vehicles utilized primarily for business (with a dollar cap on cars and trucks with a loaded vehicle weight of 6,000 pounds or less).

More broadly, the tax rate for C corporations, or the corporate tax rate, was cut through the new reforms to 21 percent (from 35 percent). Also of note to many roofing contractors and contractor firms, pass-through entities organized as S corporations, partnerships, LLCs and sole proprietorships now receive a 20 percent deduction on taxable income up to $157,000 or $315,000 if filing jointly that is phased out at $207,500 or $415,000 respectively.

Many contractors are structured as pass-throughs and pay their business taxes on individual returns, so it also helps that the top individual rate has been lowered from 39 to 37 percent. However, the rules for pass-throughs are complex and consulting with a tax expert is encouraged.

For contractors that are family businesses, the new tax code doubles the estate tax exemption so that estates of up to $11 million ($22 million for couples) are now exempt from taxation. In addition, the Alternative Minimum Tax (AMT) exemption and phase-out amounts for individuals have been sharply increased.

Finally, in a separate bill, Congress renewed the Residential Energy-Efficiency Tax Credit (IRC Sec. 25C), the Energy Efficient New Home Tax Credit (45L), and the Commercial Building Tax Deduction (179D). While renewed retroactively only for tax year 2017, the door remains open for these incentives (tax extenders) to be renewed for 2018 and beyond.

“These incentives help, but the tax act’s reforms are a big, long-term win for both the spray polyurethane foam sector and the roofing industry at large,” says Riesenberg. “All indications point to this act giving the roofing industry and its many players a boost in business. It’s business and jobs that drive the economy, and when you add in the resulting benefits direct to our members, this news hits the trifecta for an exciting and optimistic 2018 and beyond.”