



Hearing on Tax Reform Proposals

**Statement of
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President and Chair of the Board**

presented to the

**COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON TAX POLICY**

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Good Morning, Chairman Boustany, Ranking Member Neal, and members of the subcommittee. I am Rhoda Mae Kerr, fire chief of the Austin Fire Department, and president and chair of the Board of Directors of the International Association of Fire Chiefs (IAFC). The IAFC represents more than 11,000 leaders of the nation's fire, rescue and emergency medical services. The IAFC's membership is internally organized into a number of sections based on individual fire chiefs' areas of expertise. The IAFC Volunteer & Combination Officers Section represents more than 2,000 chiefs from volunteer and combination agencies, while the Fire & Life Safety Section represents more than 1,000 chiefs and fire marshals with expertise developing and implementing fire and life safety codes. Thank you for the opportunity to provide comments on how tax reform could be used to support volunteerism and improve fire safety throughout the United States.

Nominal Incentives for Volunteer Fire/EMS Personnel

The fire and emergency service is a key component to the emergency response system in the United States. Firefighters and emergency medical services (EMS) personnel provide emergency response and mitigation to a variety of incidents including fires, medical emergencies, hazardous materials incidents, acts of terrorism, public health emergencies, building collapses, technical rescues, and other emergencies. Volunteer firefighters and EMS personnel play a large role in the provision of these emergency services. According to the National Fire Protection Association (NFPA), volunteers represent more than 69% of firefighters nationwide and serve in more than 27,500 fire departments. Nearly 20,000 fire departments, or 66% of all fire departments nationwide, rely solely on volunteers to provide their communities with emergency response and mitigation services. The NFPA further reports that in 2014, the value of services provided by volunteers was estimated to be nearly \$140 billion.

The American fire and emergency service has seen a dramatic and steady decline in the number of volunteers. In 1984, 897,750 volunteer firefighters were serving across the nation. In 2014, just thirty years later, nearly 110,000 volunteers had left the fire and emergency service and were not replaced. The absence of these firefighters is being felt throughout the fire service as volunteer and combination fire departments are struggling to maintain adequate staffing levels. Rural areas of the nation are impacted particularly hard. These areas typically do not have the tax base to support career fire departments and often rely solely upon volunteers. The end result for these communities is often a lapse in fire protection and emergency services as these volunteers are lost and not replaced. If not addressed, this attrition of volunteer firefighters and EMS personnel will place tens of thousands of communities in extremely perilous positions.

Over the past several years, jurisdictions have sought to incentivize individuals to volunteer by offering nominal recruitment and retention incentives. These incentives often include items such as clothing with a fire department logo, local property tax waivers, reduced municipal water rates, and modest monthly stipends. Though these benefits might seem to be forms of de minimis compensation, the Internal Revenue Service considers these nominal incentives to be taxable income and requires fire departments to issue W-2s to their volunteers.

In 2007, Congress recognized the importance of volunteer firefighters and EMS personnel by including language in the Mortgage Forgiveness Debt Relief Act of 2007 (P.L. 110-142) which

excluded property-tax based incentives and up to \$360 in other incentives from being considered taxable income. This provision remained as an active portion of the Internal Revenue Code through the end of the 2010 tax year. Unfortunately, this provision was not extended and expired at the conclusion of the 2010 tax year.

The IAFC and other national fire service organizations strongly support the Volunteer Responder Incentive Protection Act (H.R. 2752/S. 609) which would reauthorize this provision and increase the tax exclusion of non-property based incentives for volunteers from \$360 to \$600 per year. This legislation currently has strong bipartisan support with 56 cosponsors, 11 of whom serve on the Committee on Ways and Means. The IAFC strongly encourages this subcommittee to include H.R. 2752 in any tax reform proposal that the Subcommittee might consider. This modest investment in recruiting and retaining volunteers will yield significant savings as communities will be able to retain their volunteer and combination fire departments.

Tax Considerations for Fire Sprinkler Systems

Fires continue to cause staggering damage to our nation. In 2014, nearly 1.3 million fires killed 3,275 people, injured nearly 16,000 individuals, and caused \$11.6 billion in direct property damage. Indirect damage from fires is likely to be significantly higher as most small businesses will face temporary interruptions, if not complete closures, following a fire. Fires are not a rare occurrence for our nation. In 2014, someone was injured by fire every 33 minutes and someone lost a life every 2 hours and 41 minutes.

Automatic fire sprinkler systems are a recognized and highly-effective way for property owners to protect their properties and the lives of those who work and live in those structures. Sprinklered buildings have a reduced death rate per fire of 80% and reduced damage rate per fire of up to 70%. Furthermore, sprinklers have been found to confine a fire to its room of origin 94% of the time. Despite these clear benefits, current depreciation rules create a strong disincentive for building owners to invest in a sprinkler system due to the 39-year depreciation schedule for these systems. This tax policy also is inconsistent as automatic fire sprinkler systems are depreciated at 39 years whereas other plumbing improvements are depreciated at 15 years.

The IAFC strongly encourages this subcommittee to adopt a tax policy on fire sprinkler systems which actively encourages the installation of these life-saving systems and establishes parity in the depreciation of a building's plumbing improvements. The Fire Sprinkler Incentive Act (FSIA; H.R. 3591/S. 2068), introduced by Rep. Tom Reed (R-NY) and James Langevin (D-RI) is the perfect solution to address this issue. The FSIA would make two adjustments to the tax code to incentivize property owners to invest in fire sprinkler systems and to establish parity in the depreciation of these life-saving systems.

The first change that the FSIA would establish is to make fire sprinkler systems eligible for Section 179 expensing. This important change would allow low-rise and medium-rise property owners to immediately recover the costs of their fire sprinkler systems up to the Section 179 annual maximum of \$500,000. With this heightened Section 179 cap, many small businesses

would be able to protect their buildings, businesses, and lives of their customers and employees easily.

The FSIA provides a second adjustment to current tax policies by accelerating the depreciation schedule for fire sprinkler systems to 15 years. This change will greatly assist high-rise property owners in installing fire sprinkler systems as the cost of these systems would likely exceed the \$500,000 annual limit on Section 179 expensing. Fifteen years is a reasonable time to expect a property owner to retain his or her property and recoup investments in making his or her structure safer for all. Additionally, this change would establish parity in the tax code by placing fire sprinkler systems on the same depreciation schedule as is applied to other plumbing improvements in a building.

It is important to note that the FSIA only provides an incentive for building owners to retrofit their existing building with a fire sprinkler system. This legislation in no way compels a property owner to make this investment and is not applied to new construction. Additionally, property owners required by law to retrofit their structure with fire sprinklers would not be eligible for the tax incentives contained within the FSIA. It is important to establish a mechanism to incentivize owners of existing buildings to invest in these important and life-saving systems.

Incentivizing building owners to install fire sprinkler systems also brings considerable safety and benefit to firefighters in the event of a fire. When a fire has been kept in check by an automatic fire sprinkler system, the building itself is far less likely to collapse or allow fire conditions to reach the dangerous “flashover” point—the temperature at which all materials ignite. Prevention of these two incidents greatly increases a firefighter’s chance of extinguishing the fire without death or injury. Just as fire sprinkler systems are key to improving public safety, so too are they key to improving firefighter safety.

Conclusion

I thank the subcommittee for the opportunity to offer these recommendations on how we can reform portions of the tax code to better protect our communities. As you are all well aware, the tax code is a powerful tool to accomplish many goals—improving public safety is no exception. The current tax code contains several provisions which impede the ability of fire departments and private building owners to address life safety concerns in their communities. The IAFC strongly encourages this subcommittee to include H.R. 2752 and H.R. 3591 in any tax reform proposal which might be offered. These two provisions provide important adjustments to the tax code to vastly improve the ability of fire departments to recruit and retain volunteer emergency responders as well as aid property owners in their efforts to save lives and make their buildings resilient.

The IAFC looks forward to continuing to work with this subcommittee to address the needs of America’s fire and emergency service. We stand ready to assist the subcommittee in developing and evaluating tax policies to support fire departments and improve public safety.