

8 Construction Tax Tips to Start the New Year Off Right

By Karl Swan and Kevin Bass

- 179D tax deduction is almost back** – This tax deduction expired a few years ago, but as of the writing of this article, appears to be back and will be retroactive to 2018. This allows energy-efficient building improvements or new building construction an up to \$1.80 per square foot deduction. Architects and engineers that design government-owned buildings may also be eligible to take this deduction. This will be worth exploring once this is put into law.
- Maximize the 20% Qualified Business Income (QBI) deduction (IRC §199A)** – Make sure you plan to maximize this “free” deduction for the lesser of qualified business income (QBI) or 20% of taxable income. There are several limitations, including W-2 wages and lack of depreciable property that can cause profitable pass-through entities to lose the benefit. It is important to find the right balance between owner compensation & pass-through income to fully maximize this deduction.
- Bonus Depreciation & Section 179** – Businesses may expense 100% of the cost of qualified property in the year the property is placed into service. This also now applies to some qualified used property. Section 179 is still available with the annual limit at \$1,040,000 but begins to phase out once qualifying purchases exceed \$2,590,000 for tax year 2020. Certain real property improvements such as roofs, HVAC, and security systems are eligible for Sec. 179 and not bonus under new tax law.
- Cost Segregation Study** – A Cost Segregation Study is an engineering-based study that allows a real property owner to depreciate a new or existing structure by reallocating real estate building costs to tangible personal property. There are significant tax benefits derived from utilizing shorter recovery periods. Depreciation expense is reallocated for property over five, seven, and 15 years instead of 39 years for the main structure of the building.
- Business Interest Deduction** – Sections 163(j) limits the amount of interest expense deductible for businesses. This deduction is limited to the sum of the taxpayer’s business interest income for the tax year, 30% of the taxpayer’s “adjusted” taxable income and the taxpayer’s floor plan financing interest. The one major exception to this rule is that this limit does not apply to small businesses with average annual gross receipts for the three prior tax years of \$25 million. A new tax form, 8990, has been provided by the IRS for calculating. One item to note is for taxpayers with multiple related, affiliated, consolidated, or commonly controlled companies, the \$25 million threshold will be aggregated.
- Small Contractor Exemption** – This exemption has been effective as of January 1, 2018, which increased average gross receipts from \$10 million to \$25 million. This opens the door for small contractors to use exempt methods such as cash, accrual, or completed contract methods. Other than home builders, only those contractors with average gross receipts over \$25 million are required to use the percentage-of-completion method. A new year is a good time to review whether a change of accounting method can improve cash flow for your business.
- Meals & Entertainment** – Track meals that are 100% deductible vs. 50% deductible. Company-wide events, such as Christmas parties or retreats, can be 100% deductible. Business meals with clients are considered 50% deductible. Entertainment expenses for golf outings or sporting events are 100% non-deductible. Make sure to review these accounts for proper allocation.
- Business Vehicles** – Trucks and SUVs such as Ford F-150s and RAM 1500s are considered heavy SUVs (over 6,000 pounds) and can be fully expensed in year 1. Other vehicles (under 6,000 pounds) can still get potential depreciation write offs of up to \$18,100 for the 2019 tax year.



Please contact **Rivero, Gordimer & Company** should you have any questions. We have been proud members of ABC for over 25 years. Kevin Bass and Karl Swan are both on the tax team and are members of the Construction Committee at RGCO. Email comments or questions to KBass@rgcocpa.com or KSwan@rgcocpa.com.