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SMALL CONTRACTOR
TAX RELIEF

Building Savvy

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SPOTLIGHT ON NARI

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SMALL CONTRACTOR TAX RELIEF: DO YOU QUALIFY?



By Steven Bankler, CPA

If you're a small business contractor with annual gross receipts averaging \$25 million or less in the past three-year period, the recent tax changes may have given you a valuable leg up. The small contractor exemption threshold has increased for the first time since 1986, allowing more build-

ing contractors to pick the accounting option that works best for certain long-term contracts, inventory expenses, and other capitalized costs.

Large contractors must use the percentage of completion method of accounting, which requires tax payment on projects while they progress. Eligible small contractors, now including those making an average of \$25 million or less in annual gross receipts in the past three years, can instead use a method of accounting that allows for a more tax-friendly treatment of projects that are not yet complete.

Many small building contractors eligible under this expanded threshold choose to use the completed contract or cash method of accounting for tax purposes. These methods allow for tax deferrals on certain

long-term contracts to manufacture, build, install, or construct property as long as the projects are expected to be completed within two years.

The change can be a potential windfall for some contractors, but it's not without exceptions. One huge consideration is in how your alternative minimum tax rate (AMT) affects it. The AMT was eliminated for C corporations, but it may still be applicable for owners of businesses that are taxed as pass-through entities (income/loss of the business is reported and taxed on the owner's return).

Before changing your method of accounting, talk to a tax advisor about the AMT factor and other concerns. The right IRS forms must be completed, and some taxpayers must secure IRS consent before changing accounting methods for tax purposes. You must also pass the IRS gross receipts test to ensure your receipts within the past three years do not exceed the threshold. Plus, any contracts that began before 2018 need

to continue under the prior applicable accounting method.

A qualified tax advisor can also help you decide what method of accounting is right for your projects and budgets. While a cash method may offer advantages for tax purposes, for instance, accrual accounting might be better for other financial reasons. The pros and cons of each method should be weighed carefully. With expanded options come added considerations, and some of those considerations can be too complicated to successfully master on your own. ▼

Steven Bankler has more than 40 years of experience in the accounting industry. Steven's expertise lies in consulting, planning, tax, and asset protection as well as exit strategy services for closely held businesses. He also provides litigation support (both as a testifying expert witness and a consulting expert), business negotiations and estate planning. For past Building Savvy tax tips and to learn more about Steven Bankler, CPA, Ltd., visit www.bankler.com