

REGULATION

Stay on top of tax changes in 2012

What you should know; from an expert.

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Death and taxes – there’s no getting around them. Luckily tax expert, Paul Gergel, says that 2012 does not bring about many big changes.

“Most are due to tax legislation enacted in past years, and most are not pro-business,” says Gergel, a partner at WithumSmith+Brown, PC in Princeton, N.J. He shares a summary of some of the more significant changes below:

“Tax incentives are real winners to the A/E/C industry.”

■ Depreciation changes. In 2012, “bonus” depreciation for qualified property has been reduced from 100 percent of the cost to only 50 percent. Additionally, immediate expensing of capital purchases under Code Sec 179 has also been lowered from \$500,000 to \$139,000. Beginning in 2013, the limit for the immediate expensing under Sec. 179 will be further reduced to only \$25,000. Write-offs for real property have also been curtailed; the period to amortize qualified leasehold improvement property has been increased from 15 years to 39 years, and immediate expensing of qualified real property is no longer allowed.

■ Tax rates. For federal tax purposes, the rates will remain the same as 2011. Many states are still coping with major budget deficits, so the debate about whether to raise taxes to generate more immediate revenue or to lower them to promote growth continues. For example, Connecticut is increasing the corporate income tax on large business to 9 percent, while Massachusetts, Indiana and West Virginia have lowered their corporate tax rates in 2012. While there haven’t been many “rate” changes, a growing trend has been for states to move away from taxing corporate profits toward taxing gross receipts, guar-

anteeing them tax revenue from businesses even during bad times.

■ Expiring tax provisions. One significant tax change is the expiration of the



Paul Gergel,
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opportunity to exclude 100 percent of the gain from the sale of C corporation stock acquired after Sep. 27, 2010, but before Dec. 31, 2011, under the Section 1202 exclusion. From the employment tax front, the work opportunity tax credit will no longer be available for those hired beginning in 2012, unless the individual is a qualified veteran. Recently, Congress extended the payroll tax cut on employees’ wages for two months to

Feb. 28, 2012. This gives employees a 2 percent reduction in social security tax withheld from their paychecks.

“Despite these tax changes, there are several tax incentives that were enacted in the past several years that architects and engineers may be able to utilize to counterbalance increases in taxes,” Gergel says. They include:

1) Research credits. Many states along with the federal government have instituted research and development tax credits designed to foster innovation and economic growth. For architects and engineers, taking advantage of the research credit is a powerful way to reduce a company’s tax burden. Many firms overlook this credit as they associate it with the development of patentable products, but the reality of it is that work normally considered routine, in many cases, qualifies for this credit. For many, their investment in research activities can produce tax credits of up to 6.5 percent of the cost of their research expenses.

2) Energy-efficient building design. IRS code section 179D permits owners who build or renovate energy-efficient buildings, an additional tax break of up to \$1.80 per square foot. For architects and engineers, there is a little-known

YOU SHOULD KNOW

■ Hire a veteran – get credit

The Three Percent Withholding Repeal and Job Creation Act, P.L. 112-56, extended the work opportunity tax credit (now called the returning heroes and wounded warriors work opportunity tax credits) for businesses that hire certain military veterans. Employers will be eligible for a credit of up to \$9,600 for each qualified veteran that they hire after the law’s enactment date (Nov. 21, 2011) and before Jan. 1, 2013.

■ Returning heroes tax credit

An employer may be eligible for a credit of up to \$2,400 for hiring a veteran who has been unemployed for at least four weeks and up to \$5,600 for hiring a veteran who has been unemployed for more than six months.

■ The wounded warriors tax credit

An employer may be eligible for a credit of up to \$9,600 for hiring a veteran with a service-connected disability who has been unemployed for more than six months and up to \$4,800 for hiring a veteran with a service-connected disability (who does not meet the returning hero credit requirements) or who qualifies as a food-stamp recipient.

exception allowing them to qualify to take the credit if their design work was done on behalf of a federal, state or local governmental agency.

3) Domestic manufacturer’s deduction.

This is yet another significant tax incentive that architects and engineers overlook, as many do not consider themselves as “manufacturers.” However, for 2012 the IRS specifically allows architects and engineers to deduct 9 percent of their “qualified production activities income” (Code Section 199).

“These three tax incentives are real winners to the AEC industry,” Gergel says. “But the rules and qualifications for each can be quite complex, so any architect or engineer who has overlooked any of these incentives should contact their tax advisor and review the potential tax savings available. ▀▀