

Contractor Tax Relief Being Considered

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The U.S. Government has often shown a propensity to overreact when confronted with disclosure of tax abuse by businesses and other activities which are viewed as unfairly reducing and/or delaying tax collections. As disclosed by today's discourse on the nation's economic problems, that response often consists of the imposition of regulations that many times miss the mark when viewed from an overall economic perspective. What may solve one problem can cause unnecessary problems for others affected by the new regulations with the result that not much has changed from an overall economic point of view other than more government regulation.

Such is the case with some of the contractor regulations that have been imposed over the years. Notable tax changes because of perceived tax abuses include the required use of the percentage of completed contract method (PCM) by certain contractors, the alternative minimum tax (AMT) and the requirement to "look back" and recompute taxable income once a job is completed. These rules have resulted in large increases in man-hour costs to contractors and accordingly costs to project owners. In all of these cases, the abuses that they were intended to cure were aimed at a relatively few major corporations and wealthy individuals.

Let's look at one example in the case of the PCM. Prior to passage of the requirement to use this method, a contractor was able to use the completed contract method (CCM) which allowed reporting of income from a contract after it was completed. This was certainly preferable to reporting the income from a contract as the contract progressed and while retainage was held by the project owner and its final outcome not known. Reform was introduced because several very large contractors were able to delay reporting income from contracts until completion and the government viewed this as unfair. Perhaps it is unfair when considering contractors with large resources and deep pockets. The government said that all contractors with \$10 million of gross contract revenue had to use PCM. That was in 1986 and the limit remains the same in 2011 since it was not indexed to inflation.

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A group of congressmen has recently gotten together to try to eliminate unfair burdens on small contractors. The American Jobs Builders Tax Reform Act would change the \$10 million threshold to \$40 million, would index that amount to inflation and eliminate the requirement that certain of these small contractors "look back" to recompute their taxable income.

The need to reform these areas was not as apparent throughout the last 25 years because throughout much of that period the economy was booming and there was a great amount of development going on. The economic downturn of today has exposed the unintended consequences of laws put into effect years ago that never provided for keeping up with the times. This legislation would protect small contractors from burdens never intended to affect them.