

How Contractors Can Save Big on Taxes

The steps your company is already taking to remain competitive may qualify for federal and state research and development (R&D) tax credits, which can mean significant financial benefits for your company. Examples include increasing your use of building information modeling (BIM) and other 3D modeling techniques to avoid conflicts onsite and improve efficiency and expanding your services to increase your marketability.

Because of common misconceptions, the R&D tax credit is often overlooked by contractors because they do not realize that it is applicable to them. In fact, this tax incentive applies to many activities you may consider routine, and not taking full advantage of this incentive can mean leaving substantial dollars on the table.

Excellent Candidates for Tax Credits

The R&D tax credit applies to much more than revolutionary inventions and highly innovative ideas. In fact, R&D includes many activities aimed at developing and improving products, processes, and techniques to meet project-specific requirements under contract with clients. Some examples that often result in R&D tax credits for mechanical contractors are as follows:

- Improving installation efficiencies through design participation on jobs under a design/build project delivery method
- Developing job-specific installation plans and layouts for LEED® and other sustainable construction projects
- Coordinating efforts, under any project delivery method, around buildings and facilities' mechanical, electrical, and structural systems using BIM, layouts, and other techniques to improve construction and installation efficiencies
- In-house engineering design of HVAC, piping, and other mechanical systems for site-specific requirements and conditions
- Determining the optimal solution for mechanical systems' installation through iterative pre-installation planning,

including work on more traditional plan/spec and hard-bid jobs.

Even using known principles of engineering to develop or improve a design or process that has similarities to previous projects can qualify if it entails a technical evaluation process aimed at eliminating an unknown with respect to design, capability, or method. Some activities may not meet the required thresholds, but many others will pass the tests—making nearly all mechanical contractors excellent candidates for R&D tax credits.

Sizable Savings

As one of the most powerful business tax incentives, the R&D tax credit can mean significant financial benefit by reducing your tax payments or allowing you to recoup taxes already paid. For the federal credit, every \$100,000 a company pays to employees to conduct qualified R&D activities translates into \$6,500 in tax savings. The credits can often quickly add up to considerable tax savings on an annual basis for work you are already doing just to remain competitive.

One mechanical contractor with \$300 million in revenues was able to qualify numerous activities for R&D tax credits across many jobs the company performed. On a commercial office building project, the contractor used BIM to identify potential conflicts between the HVAC system and the electrical and structural systems before beginning installation. For the identified issues, they developed and evaluated several options to improve installation efficiency without negatively impacting the energy performance required of the completed building. By qualifying these activities and many others, the contractor was able to claim \$1.2 million in R&D tax credits over four years.

Even smaller mechanical contractors with less formal accounting records can receive big benefits from R&D tax credits. A \$30-million mechanical contracting company earned R&D tax credits for its design/build

services, building automation design, chiller services, and commercial heating and air conditioning services. The contractor's qualified R&D involved developing and improving mechanical system plans and installation processes while taking into account multiple factors, such as site location, building orientation, construction methods, and optimum energy utilization. The company's designers used BIM software to identify clashes with other building systems and modified designs to resolve these issues. Additionally, the contractor improved installation processes with layout techniques of microprocessor-based networkable systems for the control and monitoring of HVAC equipment. By ensuring that it qualified all eligible costs with a study conducted by alliantgroup, LP, a specialty tax service, the contractor was able to capture \$100,000 in R&D tax credit dollars.

Expert Assistance Available

While mechanical contractors are excellent candidates for R&D tax credits, this incentive is highly specialized and requires a unique combination of tax, legal, and engineering expertise to maximize supportable claims. Even the most experienced and knowledgeable tax accountants often lack the specific expertise to appropriately identify all available benefits. By consulting with specialty tax service firms, such as alliantgroup, that specialize in R&D tax credits and work with your CPA, contractors can realize the full potential of the credits.

Mechanical contractors across the country are already taking advantage of the lucrative rewards from claiming R&D tax credits. For the contractors who have yet to reclaim these funds, seeking assistance from experts is critical to maintaining competitiveness.

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