

CONTROL
ENGINEERING

Three Overlooked Tax-Saving Provisions by Engineering Companies

Companies can save money during tax season if they are involved in innovation, work on government buildings, or work overseas.

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By **Sonny Grover**, Executive Vice President, alliantgroup and **Nick Worley**, Director, alliantgroup

It is common for people to complain about the weather and taxes. While you can do nothing about the weather—there are ways to reduce your tax bill. This is especially the case for engineering firms. There are a number of little-known tax provisions that can help engineering firms keep more money in their pockets. Many engineering firms have saved a great deal of money through the three tax provisions highlighted below. Many more, however, either don't know about the provisions or think they can't benefit from them. This lack of knowledge is costing them money. When it comes to tax preparation, engineering firms should ask three questions.

1. Does our firm engage in applied engineering/innovation?

In 1981 Congress wanted to encourage innovation and increase productivity—particularly seeking to award not only basic science and engineering research, but also applied engineering

and science. The result was the Research and Development Tax Credit (R&D)—the largest business credit (**approximately \$10 billion per year**) in the tax code and one that is broadly supported by both political parties. In addition, many states also have an R&D Tax Credit.

Engineering firms may not realize the design and development activities of creating structural, mechanical and electrical systems for unique buildings and structures may constitute qualified R&D activities, potentially qualifying them for the credit.

Examples include environmental designs, computer-aided design (CAD) modeling, determining alternate material to construct a structure and improving or determining alternative heating and cooling systems. The list is almost endless and it encompasses the work of many kinds of engineers.

The tax credit recently was made

permanent and was expanded to allow small and medium business owners to take the credit against their AMT. In addition, recent court rulings and regulations have been friendly to taxpayers in many cases.

The tax savings are real. For example, for four years' worth of building projects, **one engineering firm specializing in almost all aspects of design (structural, mechanical, electrical, etc.) received \$954,000 in federal R&D tax credits (the tax credit is dollar-for-dollar tax savings).**

2. Does our firm work on government buildings?

Congress has long been focused on encouraging energy independence and energy efficiency—and there are many provisions in the tax code designed to achieve that goal. As part of that effort, Congress recognized that commercial buildings are significant users of electricity and wanted to

encourage energy efficient building design—be it in the building’s envelope, interior lighting, or HVAC.

Congress provided a tax incentive **(a deduction of \$1.80 per square foot)** for buildings that exceed 2001—and for buildings placed in service beginning this year, 2007—ASHRAE standards. Congress recognized that government building owners don’t pay tax, so to still encourage energy-efficient design, Congress directs government building owners to allocate the tax deduction to the designer of the building.

Engineers who worked on a federal, state, or local government building—including public universities, local schools, etc.—that were placed in service in the last three years may qualify for this tax

savings. There are hoops to jump in order to qualify—starting with getting the allocation letter from the government, as well as an independent engineering study to confirm the energy savings—but the potential tax benefits can be extraordinary.

3. Does our firm work on overseas projects?

The government encourages small and medium businesses to either export goods or provide services for projects that will be constructed overseas. For this tax benefit it is not required that the engineer be working overseas—merely that the construction takes place overseas.

The government is not giving away this tax benefit, however. It requires the engineering firm to establish an Interest-Charge

Domestic International Sales Corporation (IC-DISC) to be essentially the intermediary for the export income.

The long and short of it all is that the owners of the engineering firms can see a tax savings of 10% or higher on net export income.

Tax savings are at hand for engineering firms engaged in applied engineering, working on government buildings or overseas projects. And it only takes a phone call with an experienced practitioner for engineering firms to determine whether one, two, or all three of these provisions apply to them. You can’t change the weather—but three ideas may provide a better tax day for engineering companies.



Sonny Grover is alliantgroup’s Executive Vice President based out of the firm’s New York City office. He is a Certified Public Accountant with more than 27 years of experience providing tax, mergers & acquisitions, structuring, and operational consulting to corporations, partnerships and individual business owners throughout the world. Previously, Sonny was a Tax Partner at Deloitte & Touche, LLP, where he managed a national consulting practice and a team of 30 professionals in 12 cities. Prior to Deloitte, Sonny was with Arthur Andersen. Sonny is a graduate of the University of Texas at Austin with his BBA & MPA (in tax).



Nick Worley is a Director and a professional engineer for alliantgroup’s 179D team. Prior to joining alliantgroup, Nick was the Associate Vice President for a national structural design consulting firm. He worked for seven years in structural engineering and design consulting before moving over to the building energy arena.