



# Tax Season 101: Two Overlooked Tax Incentives for Construction Business Owners

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It is tax season, and for construction business owners, now is the time to ensure money is not being left on the table. Construction companies should not overlook certain project-based tax credits and deductions—namely, the daily construction projects that are often eligible for the Research and Development (R&D) tax credit and the Energy Efficient Commercial Building Deduction (Section 179D).

Tax filing season is the perfect time for business owners to talk to their accountants and tax advisors about both these under-claimed tax incentives that can lower liability and boost the bottom line.

## THE R&D TAX CREDIT: REWARDING EVERYDAY ACTIVITIES

The R&D tax credit isn't just for Silicon Valley—it's available broadly for innovative work or for even simple improvements made to a construction company's processes or services. Work that qualifies includes everyday activities such as improving construction equipment, evaluating alternative construction techniques, customizing an installation or making a building more energy efficient.

For example, **a building envelope contractor and manufacturer received \$479,062 in federal and state credits for four years' worth of eligible R&D projects.** One of these projects included designing, manufacturing and installing a building enclosure system for an educational facility. The contractor developed a product to accommodate the unique curvature on the exterior of the building and created a new fastening system to install the enclosure system more efficiently.

For innovative problem-solving and practical improvements such as these, the R&D tax credit provides a boost to construction business owners, offering an actual dollar-for-dollar credit against taxes owed or taxes paid. In this economy, now is not the time to miss opportunities to grow and expand your construction business.

## 179D: THE REWARDS OF SIMPLE ENERGY EFFICIENCY

The 179D deduction was created by Congress in 2005 to encourage the private and public sectors to build energy-efficient buildings. **179D provides a tax deduction of up to \$1.80 per square foot for every building a construction company is making energy efficient**, thereby reducing the upfront costs associated with energy-efficient building design and construction for commercial buildings.

The owner of a building may qualify for the deduction, as can a business improving the energy efficiency of a government-owned building at the federal, state and local levels. In the latter case, the government entity may allocate the deduction to the contractor responsible for the energy-saving elements of the property. Energy-saving enhancements to the building envelope and the HVAC, hot water and the interior lighting systems all qualify for 179D.

As a case in point, **the same contractor from above that qualified for R&D credits also received \$410,000 in 179D tax deductions for the installation of the building envelope of a county courthouse.** The contractor designed and installed three building enclosure elements including custom-designed aluminum sun shading components, a pre-glazed panel system and a one-of-a-kind copper finish wall panel system with thermally insulated walls. These energy-efficient systems shaded the building's windows from direct sunlight and insulated the interior of the building during the hot summer months and cold winters, thereby reducing the amount of air conditioning and heating required to operate the building.

While this may be a complicated example, know that many small and medium-sized construction businesses making simpler improvements have benefited significantly from this deduction, giving them the tax savings necessary to keep their doors open and hire new employees.

For construction businesses still looking to rebound from the recent economic downturn, the R&D tax credit and the 179D deduction are great ways to produce added value through everyday activities. Both incentives are a win-win for businesses and the nation's economy, and construction companies would be wise to review their projects for eligibility this tax season.



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