Volume 2 • Issue 1 • 2008

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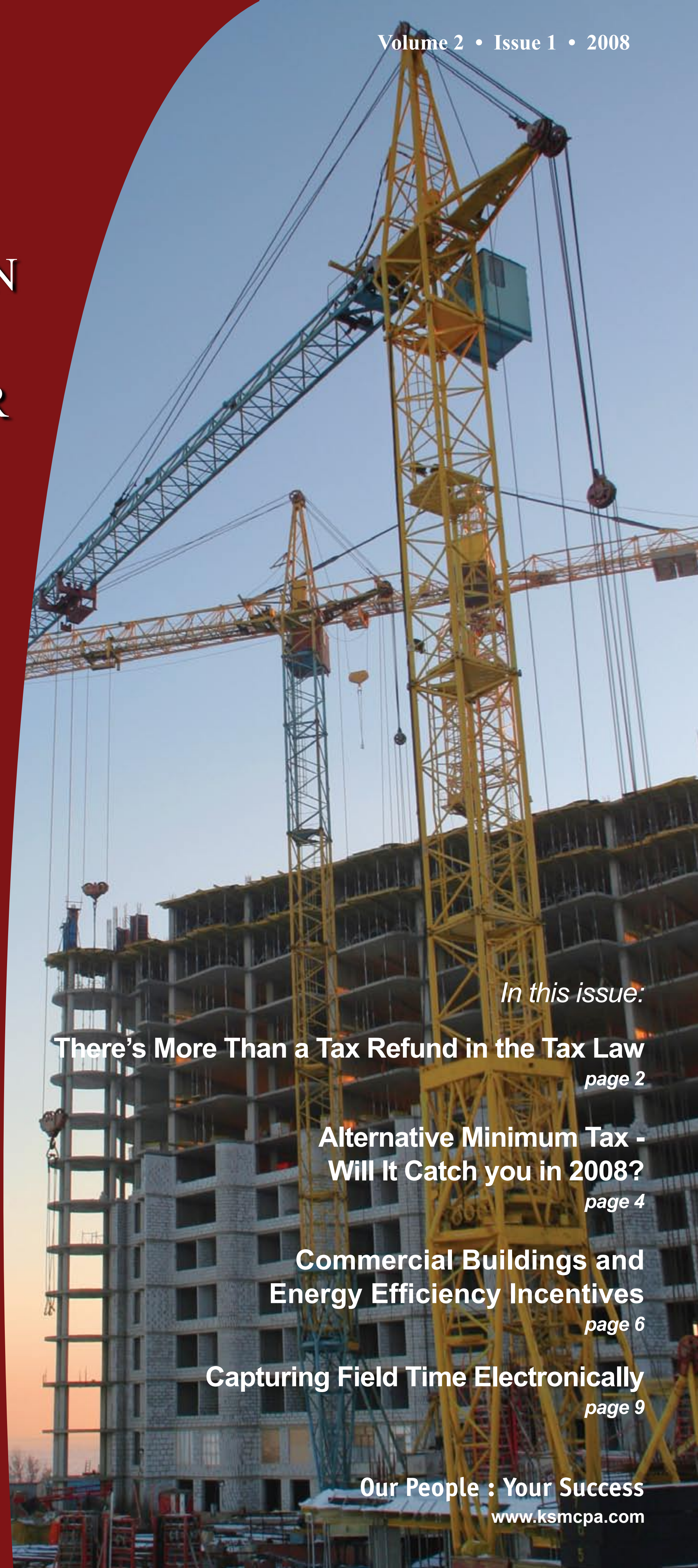
The Construction and Real Estate Industry Advisor



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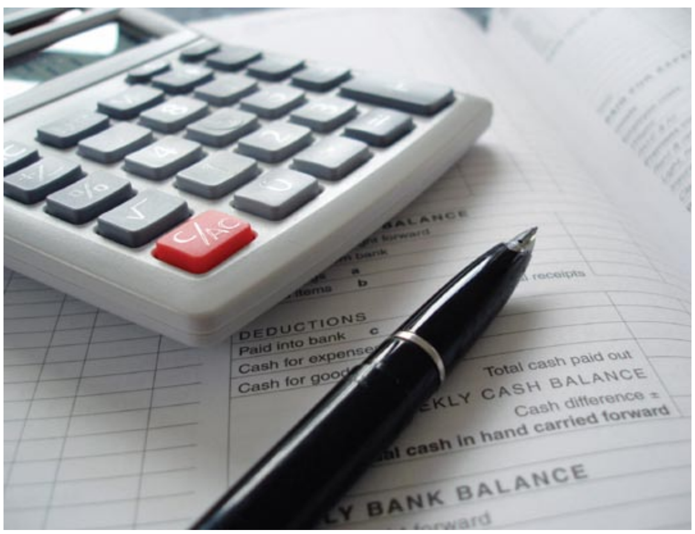
There's More Than a Tax Refund in the Tax Law

By Ron Lenz
Partner
rlenz@ksmcpa.com

On February 13, 2008, President Bush signed the Economic Stimulus Act of 2008. Although most of the headlines surrounding this $152-billion package centered on the tax rebates that are projected to be sent to over 130 million taxpayers, the bill also contains some attractive incentives for businesses.



Technically, the tax checks that many middle and low income taxpayers will receive represent a credit against the 2008 tax, based on the information filed on 2007 tax returns. Special provisions allow refunds for individuals who may not be required to file a 2007 return. Individual taxpayers may qualify for a maximum credit of $600 or $1200 for married taxpayers. Phase outs will eliminate this benefit for higher income taxpayers, which is generally the case for most new tax incentives. For taxpayers filing jointly, rebates will begin to phase out at an adjusted gross income (AGI) of $150,000 and are completely phased out when the AGI reaches $174,000. Individual tax filers will begin losing their rebates when the AGI reaches $75,000 and phase out completely at $87,000. Since this is an advance refund of the 2008 tax liability, for those who did not qualify for a rebate based on their 2007 return, they will receive another opportunity to qualify for the full rebate based on their 2008 return. No repayment will be required if the taxpayer qualifies for a lesser rebate based on their 2008 information.

"Despite the publicity surrounding the tax rebates, the bill contains some significant tax advantages for businesses."

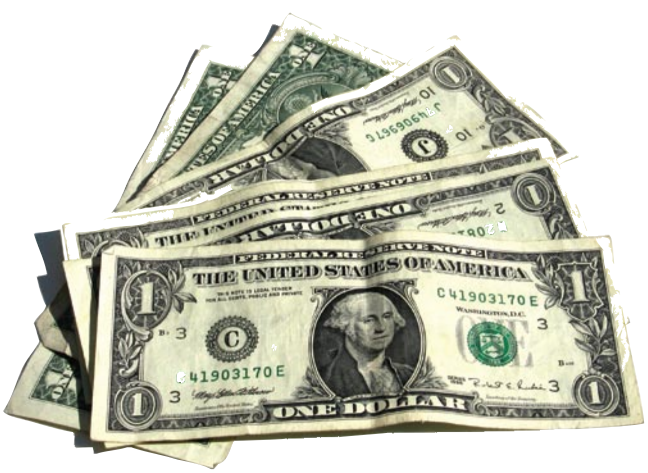
In addition to the basic rebate, the tax law provides an additional credit of $300 per qualifying child, which is also subject to phase out limitations. Individuals (such as children) who are eligible to be claimed as a dependent (regardless if claimed) on someone else's tax return are not entitled to a rebate. Again, the individual (i.e. child) may qualify for a rebate if their dependency status changes in 2008.

To administer the distribution of the checks, the new law gave the Treasury $64 million, the IRS and related agencies received $200 million, and Social Security Administration received $31 million in additional funding. Direct deposit is the method of choice, but checks also began being distributed in May after the onslaught of tax filings. All rebates are required to be distributed by December 2008.

Despite the publicity surrounding the tax rebates, the bill contains some significant tax advantages for businesses. Increased Section 179 limits and bonus depreciation are offered as economic quick fixes. Lawmakers hope that these two provisions create a powerful incentive for businesses to invest in new equipment, create jobs and stimulate economic growth.

The new law significantly increases the limits under

Section 179, which provides for immediate expensing of most depreciable personal property. In 2008, a business may deduct up to $250,000 of property, up significantly from the previous limit of $128,000 for 2007. Under current law, those who purchase large amounts of personal property will not be eligible for this benefit, although the 2008 stimulus package vastly increases those limits. The benefit begins to phase out as qualifying property acquisitions reach $800,000 and is completely phased out when acquisitions reach $1,050,000. Therefore, plan 2008 capital acquisitions wisely because this increased benefit provides significant tax deferrals.



The new law also provides an immediate write-off of 50% of qualifying property. In general, most property with a depreciable life of less than 20 years is eligible for the bonus depreciation. Depreciation limits have also been increased for luxury automobiles. Trucks, vans, and sport utility vehicles with a gross vehicle weight of more than 6,000 pounds are exempt from the luxury vehicle rules and are eligible for Section 179 and bonus depreciation if used 50% or more in a business.

There were many construction projects in progress at year end, although unfortunately to qualify for bonus depreciation, the property must be purchased and placed in service during 2008. In addition, there cannot be a written binding contract before January 1, 2008 to acquire the property; only property acquired under a binding, written contract entered into in 2008 will qualify.

For qualifying construction or rehabilitation projects, a cost segregation study will serve to maximize the opportunity for Section 179 and bonus depreciation. Properties that qualify for these new rules are often embedded in these projects and a cost segregation study will identify such properties.

Now is the time to review potential capital acquisitions for 2008 and 2009. Proper planning, ordering, and scheduling will help you maximize these deductions. Postponing a capital need until 2009 or perhaps accelerating 2009 acquisitions, may provide immediate tax benefits. Be mindful that while Section 179 and bonus depreciation techniques provide valuable present value cash savings, these techniques also simply accelerate your future year's tax deductions.

	Max. Amount	Complete Phase-Out Amount
Individual	$600	$87,000 AGI
Joint	$1200	$174,000 AGI

	Cost of Distribution of Checks
Treasury	$64 million
IRS and Related Agencies	$200 million
Social Security Administration	$31 million
Total	**$295 million**

Alternative Minimum Tax - Will it Catch You in 2008?

By Kelli McKinzie
Manager
kmckinzie@ksmcpa.com

The Internal Revenue Code provides two general income taxes impacting individual taxpayers - whether filing singly, jointly or under another of the available options. Every taxpayer is required to calculate their regular taxable income, which is the basis for determining what is generally thought of as "income tax." In addition, every taxpayer is required to calculate their alternative minimum taxable income, which is the basis for determining a taxpayer's alternative minimum tax (AMT). Alternative minimum tax is a parallel tax to the regular individual income tax. Forty years ago, when AMT was created, its purpose was to ensure that high income taxpayers did not avoid paying income tax by virtue of receiving deductions unavailable to taxpayers in lower income brackets. Although AMT rules served their intended purpose for a number of years, those rules are widely considered outdated and unfair to many taxpayers who will be subject to alternative minimum tax. If the current law

remains unchanged, it has been estimated that in the year 2010 an estimated 30 million taxpayers are expected to pay AMT. This is due to the fact that while parameters for regular income tax are indexed for inflation, parameters for AMT are not. In 2004 only 1% of taxpayers making between $75,000 and $100,000 paid AMT. Fifty-two percent of taxpayers making the same income in 2010 will be paying AMT. A taxpayer's chances of paying AMT increase by six fold if you are married because the AMT tax brackets are the same as other taxpayers. In addition, having more children increases the likelihood of paying AMT because personal exemptions are disallowed when calculating AMT. Hence, the majority of married couples who make between $75,000 and $100,000 with two or more children should expect to pay AMT in the year 2010.

IRS Form 6251 is used to calculate an individual's alternative minimum taxable income and tax. A taxpayer's adjusted gross income (AGI) is the starting point for the calculation. The following itemized deductions are added back to AGI if they have been claimed by the taxpayer on Schedule A: medical and dental expenses (unless they exceed 10% of AGI), taxes paid, mortgage interest (allowable only to the extent that the loan was used to buy, build or improve a home), and allowable miscellaneous itemized deductions subject to the 2%

"Every taxpayer is required to calculate their regular taxable income, which is the basis for determining what is generally thought of as "income tax."

limit. In addition, exclusions and deferred items are added or subtracted from AGI resulting in the alternative minimum taxable income (AMTI). Exclusion items are AMT adjustments that result in a permanent change in tax. Examples of exclusion items include itemized deductions, interest from private activity bonds, tax refund interest, and investment interest expense. Deferral items are AMT adjustments that do not cause permanent differences in taxable income and are creditable against regular tax in future years. Examples include depreciation on property placed in service after 1986 and before 1999, loss limitations, and certain long-term

contracts. If the calculated AMTI is $175,000 ($87,500 for Married Filing Separately) or less the AMTI is multiplied by 26%. If the AMTI is more than $175,000, the AMTI is multiplied by 28%. This tax based on the AMTI is the taxpayer's tentative tax. The tentative tax is then compared to regular income tax. If the tentative tax is greater than the regular tax, the difference is added to the regular income tax on the 1040 as your AMT tax.

Minimum tax credit is the excess of the taxpayer's AMT liability over the amount for which he would have been liable if only the exclusion items were taken into account and it is calculated for each year a taxpayer is an AMT payer on IRS Form 8801. If a credit is generated due to a deferred adjustment, prior to 2007, the credit would have been creditable against regular income tax in future years but was not refundable. The nonrefundable stipulation resulted in numerous taxpayers generating credits over the years without the ability to utilize the credits.

In a temporary measure to provide taxpayers relief from the AMT, Congress has authorized an AMT "patch" intended to allow more taxpayers to utilize AMT credits built over the years. For tax years beginning after December 20, 2006 and before January 1, 2013, individuals with unused minimum tax credits more than three years old may be entitled to a reduction in regular income tax. More importantly, a portion of these credits may be a refundable credit. The general rule regarding the AMT refundable credit amount is as follows:

Unused Minimum Credit Amount	AMT Refundable Credit Amount
$5,000 or less	100%
$5,000 - $25,000	$5,000
$25,000 or greater	20%

"If current law remains unchanged, it has been estimated that in the year 2010 an estimated 30 million taxpayers are expected to pay an AMT."

If the taxpayer's adjusted gross income for a tax year exceeds an annually adjusted threshold amount, the AMT refundable credit amount must be reduced by an "applicable percentage" of that excess. The AMT refundable credit amount is reduced by 2% for every $2,500 ($1,250 Married Filing Separately) that AGI exceeds the threshold amount. For 2007, the AGI thresholds are $234,600 Married Filing Jointly and Surviving Spouses ($117,300 Married Filing Separately) and the credit is completely eliminated once AGI reaches $357,100 Married Filing Jointly ($178,550 Married Filing Separately).

As with much of the United States' tax system, changes to tax rules bring both benefits (hopefully in the form of tax savings) and burdens (often in the form of increased complexity). The goal of the new AMT credit rules is to help reduce the AMT impact for lower income taxpayers. Unfortunately, the new rules also increase the complication of the AMT calculation, a calculation that has never been considered simple.

Commercial Buildings and Energy Efficiency Incentives

By Christopher Bradburn
Manager
cbradburn@ksmcpa.com

It is difficult, if not impossible, to ignore the impact that increasing energy prices are having on individuals and businesses in the United States. Although most attention is given to increases in the price of gasoline and diesel fuel for transportation, the cost of lighting, heating, and cooling real estate is escalating. As a result, owners of real estate are beginning to evaluate new ideas and technologies with regard to managing the energy demands of facilities. Unfortunately, the cost of energy efficient systems often exceeds the benefit of such systems, serving as a disincentive to real estate owners who may be considering energy efficient improvements to their properties.

Government incentives to promote and offset the cost of energy efficiency do exist, however. The Energy Policy Act of 2005 created Section 179D of the Internal Revenue Code. Section 179D provides a deduction to taxpayers for energy efficient property installed in or on commercial buildings. The deduction is available for property placed in service after December 31, 2005 and before January 1, 2009. Depending upon the type and efficiency of the energy efficient systems installed in a commercial building, taxpayers may receive the full deduction of up to $1.80 per square foot or a partial deduction of up to $0.60 per square foot.

The full deduction may be available to taxpayers who install on or in a building energy efficient interior lighting systems, HVAC systems, hot water systems or building envelope systems ("energy efficient systems"). To receive the full deduction, the combined effect of these systems must be to reduce the energy consumption of the building by 50% or more, as compared to a reference building of the same type (e.g. comparing an actual office building to a reference office building). The amount of the deduction is the lesser of $1.80 per square foot of the subject building, or the actual amount expended on energy efficient systems.

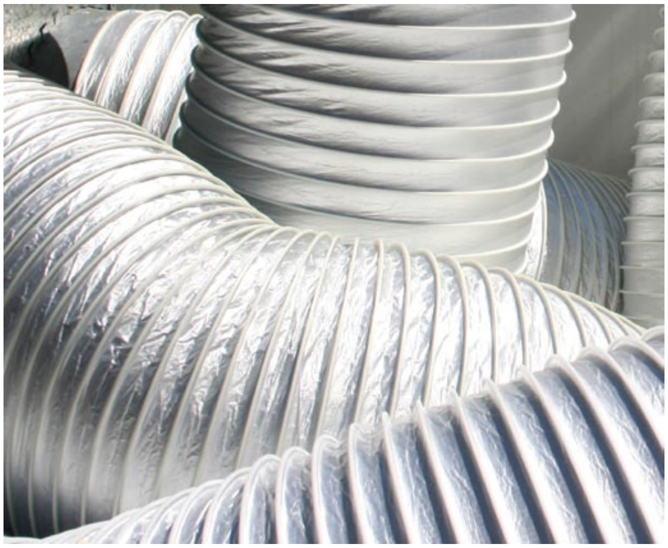
"If the energy efficient systems installed do not reduce the building's energy consumption in an amount sufficient to allow the full deduction, a partial deduction may be available..."

If the energy efficient systems installed do not reduce the building's energy consumption in an amount sufficient to allow the full deduction, a partial deduction may be available to taxpayers for the separate energy efficient systems, grouped and analyzed as follows: the interior lighting systems, the HVAC and hot water systems, and the building envelope systems. Assuming all other qualifications are met, taxpayers may claim a deduction of the lesser of $0.60 to $0.30 per square foot of the subject building (the amount is dependent upon the magnitude of the reduction in energy consumption), or the amount expended on the energy efficient system. Specific criteria for the $0.60 per square foot deduction are:

- Interior lighting systems
    - Permanent Rule – Energy efficient interior lighting systems must reduce energy consumption by 16 2/3 percent as compared to a reference building of the same type.
    - Interim Rule (currently in effect until publication of IRS Regulations) – Energy efficient interior lighting systems must 1) reduce lighting power density by 25% or more (50% or more in the case of a warehouse) of the minimum requirements in Table 9.3.1.1 or Table 9.3.1.2 of ASHRAE Standard 90.1-2001; 2) have controls and circuiting in compliance with Standard 90.1-2001; 3) include bi-level switching in all occupancies except hotel and motel guest rooms, store rooms, restrooms and public lobbies; and 4) meet minimum required lighting levels as stated in the Illuminating Engineering Society of North America (IESNA) Lighting Handbook, Performance and Application, Ninth Edition, 2000.
- HVAC and hot water systems – Energy efficient HVAC and hot water systems must reduce energy consumption by 16 2/3 percent as compared to a reference building of the same type.
- Building envelope systems – Energy efficient building envelope systems must reduce energy consumption by 16 2/3 percent as compared to a reference building of the same type.

"Although most attention is given to increases in the price of gasoline and diesel fuel for transportation, the cost of lighting, heating and cooling real estate is escalating."

The maximum deduction per building is $1.80 per square foot. This maximum deduction is measured cumulatively for all tax years in which the taxpayer claims a Section179D deduction. In addition, this maximum deduction is measured by aggregating deductions claimed by different taxpayers for property installed in or on the same building. In the event that multiple taxpayers claim a deduction related to property installed in or on the same building, the IRS does not provide guidance as to determining which taxpayer's claim holds priority.



This deduction functions much like the Section 179 expense deduction with which many business owners and accounting/tax advisors are familiar, with important exceptions: first, this deduction is not limited to businesses with trade or business income (i.e. rental property qualifies); and second, the "ordinary" Section 179 expensing limitations and phase outs do not apply. If a deduction is allowed under Section 179D for any property, the depreciable basis of such property is reduced by the amount of the deduction. Any gain recognized upon sale of the property is subject to depreciation recapture under Section 1245, if applicable. The deduction is not subject to recapture under Section 1250.

For both the $1.80 per square foot and $0.60 per square foot deductions, property that qualifies for the expensing deduction is:

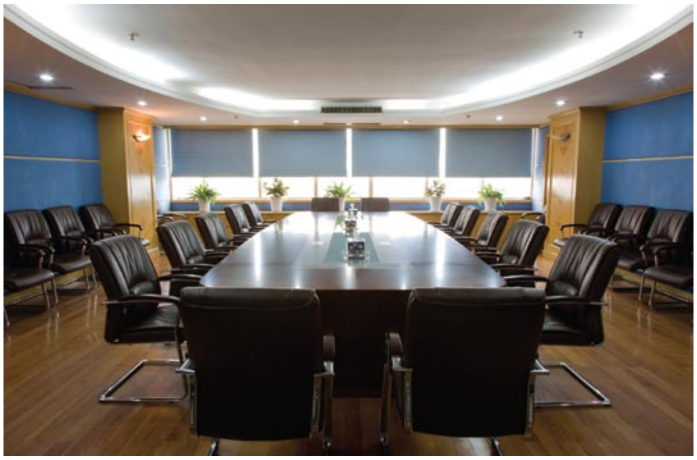
- Depreciable tangible property;
- Installed on or in a building located in the United States, where the building is an office, retail

facility, restaurant, hotel, motel, apartment of four or more stories, industrial/manufacturing facility, warehouse or parking garage, but not single family housing, manufactured housing or apartments of three or fewer stories; and

- A component of interior lighting systems, HVAC systems, hot water systems or the building envelope.

Some changes to a commercial building might result in reduced energy consumption, but are expressly identified as not qualifying for the expensing deduction. Disqualified are changes to electrical receptacles, process loads (e.g. changing from one manufacturing process technology to another that uses less energy), refrigeration systems (e.g. a cold storage warehouse), cooking systems and elevators.

Taxpayers must obtain a written, signed certification made by a qualified individual (typically an engineer) that the energy efficient property for which a deduction is claimed meets IRS requirements. Special software may need to be used in the certification process.



As part of determining whether to pursue installation of systems that might qualify for the Section 179D deduction, certain facts should be considered:

- This incentive is a deduction, not a credit. Therefore, assuming a 40% tax bracket, the tax benefit realized may range from $0.72 per square foot to $0.12 per square foot. Taxpayers should consider whether the cost of obtaining the required certification outweighs the tax benefit of the incentive.
- In general, the engineering community is of the opinion that qualifying for the $1.80 per square foot incentive is extremely difficult. A taxpayer's most easily achievable opportunity for an incentive is through lighting systems.
- Taxpayers who place new buildings in service with lighting systems that meet ASHRAE Standard 90.1-2004 may qualify for an incentive without taking additional action. Taxpayers should ask their architect about the design standard of their lighting system.

Capturing Field Time Electronically

By Charlie Brandt
Director
cbrandt@ksmcpa.com

At KSM Business Technology, we are continually looking for technology solutions that help companies become more efficient and profitable in today's environment of changing market conditions and reduced profit margins. Such solutions can have significant value for construction businesses that want to enhance their capabilities for managing jobs profitably and within budgets.

"Depending on the business process and the current technologies you have in place, an effective system can be found, configured and implemented."

One such solution from which construction companies can realize significant improvements in processing and profitability is remote electronic time and cost entry. Many types of organizations have been using electronic timesheet capture and cost entry systems successfully since the early 1990s. The benefits of these systems fall into both tangible and intangible categories, but even the intangible benefits have now shown to substantially increase revenue and profitability. Time and cost entry solutions are not just simple entry applications. The data once entered can become part of an integrated process that serves billing, human resources, productivity reporting, profitability, and overall project and job management. Here we will discuss some of the current challenges that construction businesses may be facing, benefits of implementing an electronic time capture and cost entry system in the field, what a successful solution might look like, and finally some of the technologies necessary to create that solution.

Current Changes

Construction firms are faced with many challenges regarding the capturing and reporting on field work. Typically, activities such as time spent on a job, the remaining work on that activity and job, the expenses associated with that activity and job, and scope changes that have been approved, are entered manually into a paper-based system. Many times, these manual systems are then connected to the corporate financial and job costing systems via manual double entry. The paper-based forms and documents that have been completed in the field are then entered into the job cost system, which may or may not automatically update the financial system. These processes have inherent time delays, potential accuracy issues and additional labor associated with them. One of the most costly items with regard to this system is the lack of accuracy, not just from translation issues, but from delayed entry. There is an increased risk of having inaccurate data when activities are not immediately recorded. Worse yet, the inaccurate data almost always results from lost information. The construction personnel may forget about some billable activities, actual durations, and costs. These inaccuracies alone, if corrected, can have a direct positive effect on the bottom line.

Benefits

Utilization of an electronic time and cost entry tracking system in the field will result in a quick ROI and improved corporate profitability.

Specifically the benefits are as follows:

- Increased accuracy
    - o Reduces lag time between the performance band recording of an activity
    - o Alleviates potential inaccuracies that can result from misinterpretations in translating data
    - o Reduces potential issues inherent in paper-based systems
- Improved timeliness of information
    - o Information becomes more readily available, allowing management to make decisions in a more timely manner based on accurate, current data

Project managers can update and manage timelines and dependencies at a more accurate and granular level; financial personnel can manage the costs of the project, quickly changing to the dynamic market environment for supplies and materials; and management can assess the profitability of projects and make strategic decisions based on that information before potential opportunities are lost.

"Web enabled applications are available that allow for remote entry of time and cost information from desktops at job sites or other remote locations."

Picture of Success

The key to the successful implementation of an electronic remote time and cost entry solution is to have a clear vision of success. The most important step is to understand the business process you want to implement before selecting the specific technology solution. Depending on the business process and the current technologies you have in place, an effective system can be found, configured and implemented.

Technologies Needed

The technologies necessary to run these systems vary depending on the level of sophistication you wish to implement. For example, the use of handheld devices that communicate directly and wirelessly to a centralized time and cost entry system is possible. That system can automatically send the data or wait for an audit process and then send the data to the job cost and the financial systems. Also, web enabled applications are available that allow for remote entry of time and cost information from desktops at job sites or other remote locations. Again this data is entered into a central repository that moves the information into the key internal systems. And finally, standard Windows-based applications are available to collect the time and cost data. These applications can be run on standard Windows desktops, in a trailer, with a basic internet connection. These systems are just a step above the manual systems, but the data can all be entered into a central repository and sent to the backend systems more timely and efficiently.

Conclusion

As the construction industry becomes more competitive, the timely access to accurate, real time information regarding the exact status and cost of each job can give your organization the ability to provide higher quality services to your customers and an increased profitability to your construction business.

Tom Nowak Named President of CFMA

Tom Nowak
Director
tnowak@ksmcpa.com

Tom Nowak, a Director in Katz, Sapper & Miller's Construction Services and Business Advisory Groups, was recently named President of the Central Indiana Chapter of the Construction Financial Management Association (CFMA), which is the voice of financial management in the construction industry and the only non-profit organization dedicated to serving the construction financial professional. Tom provides accounting and tax support services for the firm's clients in order to establish and maintain the success of client businesses.

KSM Welcomes New Staff Members

Christopher Bartenbach, CPA
In-Charge
cbartenbach@ksmcpa.com

Christopher Bartenbach is an In-Charge in Katz, Sapper & Miller's Assurance Group. Christopher's primary responsibilities include conducting financial audits. Christopher has worked in Accounting since 2001 and has assisted clients by performing financial audits, preparing tax returns and performing controller functions. His expertise includes working with construction, distribution and non-profit clients. Christopher graduated with a Bachelor of Science degree from Manchester College and a Masters degree in Professional Accounting from Indiana University.

Chris Felger, CPA, CMA, CFM
Manager
cfelger@ksmcpa.com

Chris Felger started his career with Katz, Sapper & Miller in 1999. He re-joined the firm in 2008 after serving as the CFO of a large privately-held company. As a Manager, Chris audits and reviews financial statements and advises clients in accounting, reporting, compliance and internal control matters. Chris graduated with distinction from Manchester College with a Bachelor of Science degree in Accounting and a Master of Accountancy degree. He is a member of the firm's Construction Group.

Ashley Morton
Staff Accountant
amorton@ksmcpa.com

Ashley Morton is a Staff Accountant in Katz, Sapper & Miller's Real Estate Group. Her primary responsibilities include resolving issues regarding tax compliance. Ashley graduated from Indiana University's Kelley School of Business with a Bachelor of Science degree in Accounting and Finance and a Masters degree in Business Administration.

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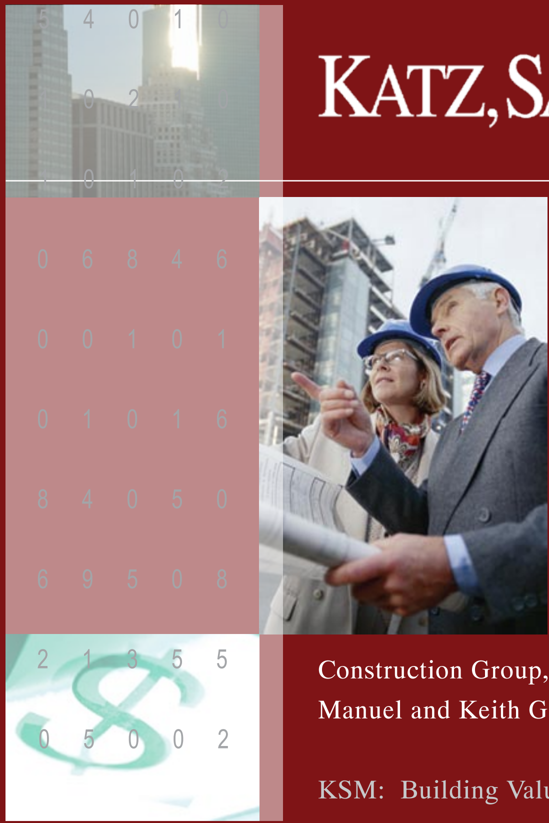

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Our depth of experience translates into the ability to assure that our clients receive the best possible service and advice in order to provide peace of mind along with financial success.

Keep pace with an evolving economic environment. For more information about topics included in this newsletter, or to learn how Katz, Sapper & Miller can help your company to achieve greater success, please contact the authors, the partner-in-charge of the Construction Group, Ron Lenz, or the partners-in-charge of the Real Estate Group, Kent Manuel and Keith Gambrel at (317) 580-2000 or visit www.ksmcpa.com.

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KATZ, SAPPER & MILLER, LLP

800 East 96th Street
Suite 500
Indianapolis, IN 46240