

Chairman, ABC National Tax Advisory Group
Shavell & Company, P.A.,



Report on ABC's National Tax Advisory Group

In 1997, ABC's National Tax Committee established its "Tax Agenda" reflecting priority issues for which the Committee was desirous of change. Over the next five years Congress and the IRS addressed three of these issues:

1. The elimination of the estate tax. However, without further legislation, the phase-out and one-year repeal (in 2010) is followed by a sunset provision that brings the estate tax back to pre-2001 law;

2. Reduction of the capital gains tax, which is set to sunset after 2008 when the current 15% rate will go back to the pre-2001 level of 20%; and

3. IRS would no longer pursue cash basis accounting methods issues against contractors under audit. In 2002, the IRS issued Revenue Rulings clarifying when contractors could use the cash method for tax purposes.

Updating ABC's Tax Agenda

Your current National Tax Advisory Group is updating ABC's National Tax Agenda.

In addition to solidifying these key successes, namely: lower capital gains rates beyond the current sunset date of 2008; and preventing the reversion of estate taxes to pre-2001 levels - there are still other key tax issues for ABC members. Two such initiatives would impact a significant percentage of ABC members.

1. Increase the small contractor exception threshold of \$10 million as found in Internal Revenue Code Section 460(e). If the construction contractor's average annual revenue is under this threshold, then the contractor can choose among several more favor-

able tax accounting methods for regular tax purposes including the completed contract method. If revenue exceeds this threshold, then the contractor must use the percentage-of-completion method for its long-term contracts.

This threshold was put in place in 1986 and has never been adjusted for inflation. Consider that another division of the Federal government, the Small Business Administration (SBA), currently considers contractors as "small" depending on the nature of the construction at generally \$13 million to \$31 million of annual revenue, which is periodically reviewed and subject to public comment for amendments. See: www.sba.gov/size/sizetable2002.html. ABC believes this standard is a good example to follow for thresholds that can be affected by inflation.

2. Eliminate the Alternative Minimum Tax (AMT) adjustment for long-term contracts to ensure that construction contractors obtain the full benefit of the 460(e) small contractor exception. Without this additional law change the entire benefit of the 460(e) threshold change cannot be fully realized. And today it is not fully realized by "small" contractors.

Carin Nersesian, Director of ABC's National Government Affairs Department in Arlington, VA states that, "These two tax changes would have a positive impact on over 95% of ABC's contractor members. The Tax Advisory Group has recently been reinvigorated and is pursuing these two initiatives."

continued on page 17



STILES
CONSTRUCTION CO.



We build on our reputation.

Our commitment is built on a solid foundation. Our dedication is focused squarely on the future. Look at any Stiles property. Everything we do shows our high standards of excellence. Each Stiles endeavor speaks for itself.

300 SE 2nd St.
Ft. Lauderdale, FL
954-627-9150
GCG 028554

pr@stiles.com
www.stiles.com

Rich Shavell, CPA, CCFP is President of Shavell & Company, P.A. CPAs and Consultants in Boca Raton and Stuart, FL. Rich has been an advocate for contractors over the last twenty years presenting comments before the IRS on proposed regulations and testifying before the House and Senate on behalf of ABC. Currently, Rich serves as Chair of ABC's National Tax Advisory Group. Locally he serves on our Chapter's Legislative Committee and Rich is the 2005 winner of the South FL Business Journal's Excellence in Accounting Award in Construction. For more information visit www.shavell.net or call (561) 997-7242.

Report on ABC's National Tax Advisory Group

continued from page 14

In 1986 when our federal tax laws were significantly changed under the Tax Reform Act of 1986, it is arguable whether the commercial construction industry was to be impacted by the change requiring that long-term contracts be reported under the less favorable percentage-of-completion method.

At the time, Congress was anxious to limit perceived abuses by defense and aerospace contractors. You may recall the discussion of \$500 hammers and toilet seats. The concern was that while significant financial statement income was being reported, little tax was being paid because income from long-term contracts was deferred under the completed contract method by certain large public companies.

In order to address these concerns, Congress was forced to attack the completed contract method available to long-term contractors. ABC is not convinced that the intent of the 1986 law changes was to impact commercial contractors. But ABC and the entire industry were impacted, and are still.

ABC Continues to Open Lines of Communication

At the time of this writing, Ms. Nersesian indicated that ABC is working hard to open lines of communications with the IRS. "The Tax Advisory Group is scheduled to meet with IRS personnel at our mid-year meeting in conjunction with ABC's Legislative Conference in Washington, DC in early June," she said. "The IRS Industry Director for Construction for the entire country is joining us as well as key personnel from IRS Taxpayer Advocate Office."

The National Tax Advisory Group wants to see these tax law changes implemented. This will require the assistance of ABC members in communicating the message to our elected officials. The objective is to reverse what we believe is an unintended impact to the commercial construction industry. The fundamental results will be more accurate timing of taxation with the contractor's cash earnings from long-term contracts.

Further, in line with fundamental ABC/Merit Shop Principles is that more capital (via less tax) will remain in the contractor's hands for investment in business operations. Your National Tax Advisory Group looks forward to your support of these very important objectives.

WE'RE TAKING QUALITY AND SERVICE TO NEW HEIGHTS.

Through dedication, expertise and teamwork, Suffolk Construction goes above and beyond to exceed your expectations, and to build a lasting relationship with each partner.

SUFFOLK

PASSION • INTEGRITY • HARD WORK • PROFESSIONALISM

CGC 047581 CGC 059578

We want to help you make more money and keep more of it.

Shavell & Company is a certified public accounting and consulting firm with a reputation for excellence in the construction industry.

Construction Industry Services

- Bonding Maximization
- Cash Flow Analysis & Planning
- Job Costing
- Tax Planning and Return Preparation
- Audited, Reviewed and Compiled Financial Statements

Industry Credentials

- Rich Shavell – ABC National Tax Advisory Group Chairman, 2006
- ABC National Representative to IRS Industry Issue Resolution Program in Washington, D.C., 2005/2006
- 2005 Winner – South Florida Business Journal's Excellence in Accounting Awards, Construction Category
- Board of Trustees, Institute of Certified Construction Industry Financial Professionals, and holds CCIFP designation

SHAVELL & COMPANY, P.A.

Certified Public Accountants and Consultants

561-997-7242 • 772-283-4887 • fax 561-997-7262

info@shavell.net • www.shavell.net

7700 Congress Avenue, Suite 3105 • Boca Raton, Florida 33487
850 NW Federal Highway, Suite 409 • Stuart, Florida 34944