KRAUS-ANDERSON® Insurance

PRONETWORK NEWS

Risk Management Tools for the Design Professional

May 2024 | Vol. XVII No. 9

a/e ProNet
Lynda Colucci, Executive Director
info@aepronet.org

Jacob Wood, JD
Capstan Tax Strategies

- **Has overseen 1000s of R&D, Cost Segregation, and 179D Studies, resulting in over $800M of tax benefit to clients**
- **A licensed attorney, has a deep understanding of how to strategically leverage relevant legislation**
- **Subject matter expert in architecture, engineering, manufacturing, software development, and life science industries**

jwood@capstantax.com
319.610.7444

Specialty Tax Incentives: A New Stream of Revenue to Grow Your Business

By Jacob Wood

Rising costs, talent shortages, and an increased tax burden. Many architecture and engineering firms are feeling the pinch these days.

Specialty tax incentives might be a source of capital you didn't know existed. These credits and deductions can decrease tax liability and increase cash flow, allowing you to smoothly scale your firm in a tight labor market.

When it comes to taxes, you should pay what you owe – and not a dollar more.

R&D Tax Credits

The Research and Development (R&D) Tax Credit is a tax incentive offered to companies who create or improve a product or process as part of business activity. Many firms assume they aren't eligible, but the iterative processes involved in engineering and architectural design make A/E firms perfect candidates for this powerful Credit.

The Credit offers up to $.10 in benefit for every qualifying dollar identified, and provides a dollar-for-dollar reduction in tax liability. In the most recent year for which data is available, A/E firms claimed over $1B in R&D Tax Credits. Why not cash in on the innovative work you're already doing?

A recent legislative change makes the R&D Tax Credit even more appealing. In the past, A/E firms could immediately deduct their Section 174 Research and Experimentation (R&E) expenses or could choose to capitalize and amortize those expenses over 5 years. Beginning in Tax Year 2022, taxpayers no longer have the option to immediately deduct Sec. 174 expenses. Instead, *Sec. 174 expenses must be amortized over 5 years.*

What will this mean for impacted A/E firms? It's basically a timing issue:

- Many firms will pay higher taxes in Year 1 and Year 2, but not more taxes overall
- Most firms will "break even" by Year 3, and pay little to no additional tax in Years 3, 4, or 5, if the R&D Tax Credit is taken
- *Taking the R&D Tax Credit can mitigate the impact of the mandatory amortization*

There has been a strong bipartisan effort to repeal the mandatory amortization of Sec. 174 expenses. As of this writing, The Tax Relief for American Families and Workers Act of 2024 (H.R. 7024) has passed the House and awaits the Senate's attention.

PRONETWORK NEWS

Risk Management Tools for the Design Professional

RECENT BLOG POSTS

aeProNet Scholarship Recipient Jennifer Stieben Lands Internship at Tesla
Read More

Exciting News: 2023 ACEC Scholarship Recipient Jillian Dlouhy Lands a Dream Job With Olsson, Inc. **Read More**

Scholarship Recipient Jillian Dlouhy: Innovative Design Working on a Multi-Disciplinary Team of Students **Read More**

The Future of Construction with Computer Vision AI **Read More**

Meet Jillian Dlouhy – The New a/e 2023 ProNet Scholarship Recipient **Read More**

Scholarship Recipient Rebecca Rasmussen: My Work to Utilize the Finite Element Method To Create Computational Representations of Geometry Useful in Design, Analysis and Manufacturing Applications Read More

a/ePronet AIA David Lakamp Scholarship Winner, Sabrina Lem Read More

PRONETWORK NEWS

A Risk Management Conversation with A.I.
Read More

In the meantime though, A/E firms should not hesitate to claim or continue to claim the R&D Tax Credit, but they must make sure they are doing so in compliance with current legislation. Discussion with your tax professional is highly recommended.

179D Deduction

The 179D Deduction is a federal incentive that rewards energy-efficient construction and design:

- Available for newly constructed, renovated, or expanded properties
- Deduction is per square foot – the larger the property, the larger the benefit
- Recent legislation increased the maximum benefit to $5.36/SF (with adjustment for inflation)

The Deduction can be allocated to architects, engineers, or designers who have created the technical specifications for installation of energy-efficient property in government buildings or properties owned by tax-exempt entities.

Example property types include:

- Government offices, courthouses, military bases
- K-12 schools, universities, libraries
- Non-profits, religious institutions
- Tribal-owned properties

The property's building envelope, interior lighting, or HVAC system must have been impacted, and energy analysis, inspection, and certification by a qualified third party is required.

Cost Segregation

Cost segregation analysis is a tax planning strategy that can help real estate owners or tenants accelerate depreciation deductions. Although standard depreciation occurs over a lengthy 39-year period, many assets within a structure–from plumbing and electrical fixtures to flooring–are not designed to last that long.

Cost segregation consultants can break out such assets for a five-year, seven-year, or 15-year recovery period, helping accelerate depreciation, defer taxes, and improve cash flow.

Cost segregation is an opportunity for your firm to save money on its largest fixed asset – its real estate.

The Process

These incentives are engineering-based, and are generally provided by a third-party provider, working closely with your CPA.

If you're interested in learning more, the next step is to select a qualified provider. Your tax professional may be able to recommend a trustworthy partner, or you might consider the Capstan Team.