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Page Title: Construction Contractors Can Benefit From Tax Reform Changes to Long-Term Contracts Exception | [INSERT RELATED SERVICE] | [INSERT FIRM NAME]

Meta Description: [NAME OF FIRM] explains how tax reform benefits construction contractors who qualify for the long-term construction contract exception limit.

Headline: Construction Contractors Can Benefit From Tax Reform Changes to Long-Term Contracts Exception

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The 2017 Tax Cuts and Jobs Act is the most comprehensive reform to the U.S. tax code in more than 30 years. As taxpayers sort out the changes, construction company contractors should take notice of a very positive change in the tax reform package—the increase in the gross receipts limit to qualify for the small construction contract exception to the percentage of completion method (PCM) by $15 million. The following provides information on what has changed and who can benefit.

Overview

While taxpayers must use either the cash or accrual accounting method for short-term contracts, they must account for long-term contracts using the rules under Code Sec. 460 (e). For long-term contracts, taxable income is generally determined using either the PCM or the completed-contract method. Under the PCM method, taxpayers must include in gross income for the tax year an amount equal to the product of the gross contract price, and the percentage of the contract completed during the year.

Old

Before the tax reform package was enacted, construction companies with average gross receipts of $10 million or less in the preceding three years were entitled to an exception from the requirement to use the PCM method for long-term contracts as long as they met certain requirements. They were allowed to instead deduct costs associated with construction when they were paid and to recognize income when the building was completed.

New

The Tax Cuts and Jobs Act increased the amount of gross receipts from $10 million or less to $25 million or less. For contracts entered into after Dec. 31, 2017, the exception for small construction contracts from the requirement to use the PCM is expanded to apply to contracts for the construction or improvement of real property if the contract: 1) is expected (at the time such contract is entered into) to be completed within two years of commencement of the contract, and 2) is performed by a taxpayer that (for the tax year in which the contract was entered into) meets the $25 million gross receipts test.

Use of this PCM exception for small construction contracts is applied on a cutoff basis for all similarly classified contracts. That means there is no adjustment under Code Sec. 481 (a) for contracts entered into before Jan. 1, 2018.

Effect of AMT Rule Changes

Alternative minimum tax (AMT) still requires the use of PCM on all long-term contracts, so there will still be an AMT adjustment required for any contract accounted for using the completed contract method. However, the AMT thresholds have increased significantly under the Tax Cuts and Jobs Act, causing fewer taxpayers to be subject to the AMT.

The exception under AMT for a married filing joint taxpayer increased from $78,750 to $109,400. The income threshold (AMTI) also increased from $150,000 for a married filing joint taxpayer to $1 million. For a single taxpayer the exception increased from $50,600 to $70,300. The income threshold for single taxpayers was $112,500 and has increased to $500,000.

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