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Year-End Tax Changes Are Coming For Construction Industry

Three quarters of the year have passed, and it is important to remember that for the 2018 tax year the Tax Cuts and Jobs Act (TCJA) has made significant changes. As you may already know Congress made changes to the existing tax laws that affect all businesses and individuals beginning in 2018. As you finish up your year please consider these changes from the TCJA that have impacted the construction industry.

- **Domestic Production Activities Deduction** – Before TCJA the domestic production activities deduction allowed a 9% deduction on qualified activities so long you as you had both qualified income and wages. For builders this deduction has been significant and free. The TCJA has now repealed this deduction for tax years beginning after December 31, 2017. For this current year you will not be able to claim this deduction any more. If you have previously not taken advantage of this deduction, it is not too late to amend prior returns to claim it.
- **Like-Kind Exchanges** - In prior years, you could exchange one vehicle for another vehicle and not be taxed on the gain. The basis of the new vehicle was reduced by the nontaxable gain. This was true for certain other exchanges such as exchanges of machinery, equipment, and real estate. The TCJA now limits like-kind exchanges to only real estate. The new law now taxes any gains associated with a like-kind exchange for assets other than real estate. If you are planning to exchange any assets, don't forget about this change.
- **Completed Contract Method** - In general, the accounting method for long-term contracts is determined under the percentage-of-completion method. "Small taxpayers" are exempted from this method and are allowed to use the completed contract method. Pre TCJA, to be considered a "small taxpayer," your average gross receipts average for the preceding 3 years could not be over \$10 million. The TCJA has now raised the 3-year average gross receipt threshold to \$25 million. Taxpayers can switch to the completed contract method of accounting if eligible under the new gross receipts limits. The \$25 million gross receipts test applies to tax years beginning after December 31, 2017.

We Can Help

Danny Gamez is the Tax Manager in the Construction Division at Gollob Morgan Peddy. If you have any questions regarding the changes or need help implementing the new provisions, please contact Danny at DanielG@gmpcpa.com or 903-534-0088.