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## Contractors tax outlook: Understanding the uncertain tax climate

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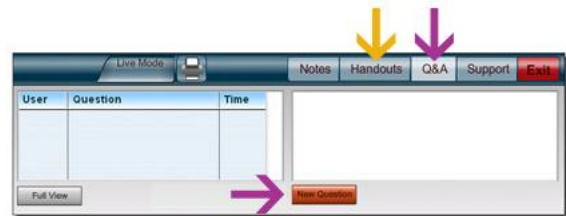
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## Leading today's discussion



**Todd Taggart**  
National Construction  
Practice Leader  
Grant Thornton LLP



**Mel Schwarz**  
Legislative Affairs  
Partner, National Tax  
Office  
Grant Thornton LLP



## Today's agenda



- Top 10 tax-saving opportunities for contractors
- Expected legislative tax developments affecting contractors

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## Polling question

- What type of business entity are you?
  - C Corporation
  - S Corporation
  - LLC or Partnership
  - Other

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## Top 10 Tax Saving opportunities for Contractors

- 1) Make the most of your net operating loss deduction
- 2) Take a hard look at bonus depreciation deductions

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## Top 10 Tax Saving opportunities for Contractors

- 3) Analyze your business structure
- 4) Consider possible future capital gains and dividend tax rate increases

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- 5) Take full advantage of capital asset expensing deductions
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- 7) Examine capital asset depreciation methods and lives, including repair expensing
- 8) Review deferred compensation plans

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## Top 10 Tax Saving opportunities for Contractors

9) Consider establishing a separate entity to own and lease fixed assets

10) Consider not deferring income

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## Polling question

- What expected tax development will have the most impact on your company?
  - Increase in individual income tax rates
  - Increase in dividend and capital gains tax rates
  - Worker classification issues
  - More audit activity by states
  - Other

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## Tax Legislative Developments

- Extended unemployment / COBRA assistance
- Incentives to HIRE the unemployed
  - FICA tax holiday
  - New employee retention credit
- Tax extenders
- Additional reporting requirements
- Carried interest and sweat equity
- Worker Classification

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## Tax Legislative Developments HIRE incentives for the unemployed

- Who are these “unemployed”?
  - Certify to employer, under penalties of perjury, that they have not been employed more than 40 hours in past 60 days.
  - Begins work after 2/3/10
  - Not a “related individual”
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## Tax Legislative Developments

### HIRE incentives for the unemployed

#### What are the incentives?

- FICA tax holiday
  - Tax on wages paid March 19, 2010 through December 31, 2010
  - Applies to employer's share only
  - 1<sup>st</sup> quarter tax credited in 2<sup>nd</sup> quarter
  - No WOTC if holiday claimed
    - May elect out of holiday to claim WOTC

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## Polling Question

- What steps should be taken now to take advantage of these incentives?
  - Get affidavits from qualifying employees
  - Determine relative value of WOTC vs. FICA holiday
  - Alert payroll processor
  - All of the above

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Tax Legislative Developments  
Health Care Reform  
Combined Bills as of 3/23/10

When do provisions become effective?

- July 1, 2010
  - 10% excise tax on indoor tanning
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## Tax Legislative Developments Extended Unemployment Benefits Tax Extenders – partial list

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- Can an interest in a real estate or development partnership be an “investment services partnership interest”?
- What can I do if it is one?
- When could this be effective?
- Why me?

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## Polling Question

- How do you recognize an employee from an independent contractor?
  - Know one when I see one
  - Up to him
  - Depends on whether he drives Ford or Chevy
  - Independent contractors take their own credit card to Home Depot

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## Tax Legislative Developments Worker Classification Proposals

- FY 2011 Budget Proposal
  - Lifts section 530 ban - IRS could reclassify workers prospectively
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