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Grant Thornton offers tax tips for contractors

CHICAGO, March 6, 2009 - Now more than ever, construction contractors face complex tax issues that can strain resources and drain what may be already-shrinking profits. Especially during a recession, contractors need to do what they can to minimize spending by effectively managing their tax burden and protecting themselves against tax increases and assessments. With 2009 ushering in new tax changes and the economic situation worsening, construction contractors should keep in mind the following tax tips:

1. **Nail down "bonus" depreciation deductions.** Bonus depreciation deductions were revived for 2008 and recent legislation extends this tax break for assets placed into service in 2009. As an incentive for investment in equipment, taxpayers are allowed to deduct half of the cost of 2008 and 2009 qualifying property in the first year of use, and then depreciate the remaining half of the asset over its normal useful life. For five year equipment, this results in a deduction of 60 percent of the asset's cost. If you invested in this property in 2008, make sure to take this bonus depreciation on last year's tax returns. And keep it in mind when weighing the cost of new assets purchased in 2009.
2. **Maximize capital asset expensing deductions.** Rules originally intended for small businesses were significantly expanded in 2008 and 2009 to allow contractors to expense up to $250,000 of fixed asset cost, provided less than $800,000 of assets are placed in service throughout the year. Unlike bonus depreciation, this applies to new or used assets. Remember this for your 2008 return, and consider it for new investments in 2009.
3. **Consider future capital gains and dividend tax rate increases.** Under current law, capital gains and qualified dividends are taxed at a favorable 15 percent federal income tax rate. This preferential treatment is scheduled to expire at the end of 2010, and the new president has pledged to roll back these lower rates for high-income taxpayers when the economy recovers in 2011. Taxpayers anticipating future transactions that could generate significant capital gains may want to work with tax advisers to determine whether the legislative outlook merits acceleration of these items into 2009.
4. **Revisit the tax rebate.** Most taxpayers who qualified for last year's Economic Stimulus rebate already received a check as an advance rebate on their 2008 tax liability. However, taxpayers who didn't qualify based on their 2007 return may be entitled to a rebate their 2008 return. Even taxpayers who did qualify last year could receive to a larger check if their circumstances have changed. Remember to check if you're entitled to a larger stimulus payment when filing your 2008 return, especially if you added a child to your family last year.
5. **Look out for the expanded "Kiddie tax."** Most contractors are family-owned businesses and many have used a variety of tax planning techniques to shift income from one family member to another. The kiddie tax requires the excess unearned income of children to be taxed at their parents' marginal rate, and it has just been expanded. It applied only to children under 18 in 2007. Beginning in 2008 it applies to all children under 19 and to full-time students under age 24, unless the student's earned income is one-half of his or her support. Thoroughly review estate planning and gifting strategies to avoid higher income taxes on dependent children over age 18.

"To learn how these tax tips may apply to your contracting business, please contact your tax advisor," said Todd Taggart, Tax partner and practice leader of Grant Thornton's Construction practice.

Grant Thornton's Construction Real Estate and Hospitality Industry Group has developed 10 tax

tips for contractors. To read all of the tax tips, go to www.GrantThornton.com/CRHtaxtips or email CRH@gt.com.
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