Michael Ceschini

From: Ceschini & Co., CPAs, PLLC [mceschini@ceschinipllc.com]
Sent: Friday, August 20, 2010 9:30 AM
To: Michael Ceschini
Subject: Built for Contractors - News from Ceschini

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Dear Michael,

At Ceschini and Company, we strive to provide ongoing support to help your business succeed in today's challenging economy. We developed "Built for Contractors" to keep you more in touch with the news that really matters to your success.

The IRS May Owe Your Company Money!

By Michael B. Ceschini, CPA, CCIFP, CM&AA, Managing Partner and George J. Sankey, CPA , Partner

Could your company be due a refund payment from the IRS?

If you have construction contracts spanning more than one year, then the answer may be yes.

Very few taxpayers are aware of a tax filing that is required if they are using the Percentage of Completion Method for tax reporting on their long-term contracts. A long-term contract is simply a contract not finished in the same tax year it is started. The required tax filing is called "Interest Computation Under the Look-Back Method for Completed Long-Term Contracts." If you have commercial or government contracts, you could be a candidate for this filing.

Although it is a required tax filing, over 70% of applicable taxpayers are not filing the form and, of the forms filed, over 80% have errors. The IRS Form and calculations may be complicated, but the concept is simple. The Percentage of Completion Method is based on estimates over the life of the contract. In the year that the contract is completed, you simply recalculate the tax using the **actual** contract price and **actual** expenses to determine whether you overpaid or underpaid taxes in prior years. Interest is calculated on the amount you overpaid or underpaid and you either receive a refund of interest or make a payment of interest.

If you have contracts that are subject to "job fade," then you more than likely overpaid your taxes in prior contract years. If you have contracts that finish with a higher than anticipated profit, then you more than likely underpaid your taxes in prior contract years. Many contractors anticipate a higher profit margin at the outset of a contract. By the end of the job, the actual profit margin ends up lower than anticipated. This is a classic example of "job fade." In today's economic environment, there are many jobs completing at a lower gross profit than anticipated.

If the contract amounts subject to "job fade" are substantial, the interest refunds can also be substantial. We have filed this form for our clients and have successfully received significant refunds. The unanticipated source of cash-flow is a windfall, especially in the current market conditions. Our firm would be happy to discuss your tax situation with you.

About the authors

Michael B. Ceschini, CPA, CCIFP, CM&AA, is the Managing Partner of Ceschini & Co., CPAs and advises clients with respect to strategic business planning, tax minimization strategies and succession planning. He can be reached at (631) 474-9400 X 3912 or via e-mail at mceschini@ceschinipllc.com.

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