

Construction Tax Planning Services

Significant construction projects bring with them significant challenges. Faced with complex issues such as sustaining performance and maintaining liquidity while dealing with asset devaluations, limited funding, accounting and regulatory changes, and other market issues, business leaders are challenged to make critical decisions on a daily basis.

For many companies, adapting to these challenges includes taking a closer look at how they manage their tax issues. And in these demanding times, you need a professional services provider that understands your business and industry.

With KPMG by your side, you're able to leverage our extensive technical knowledge and experience for more effective tax planning and greater tax benefits.

Identifying and accelerating tax depreciation deductions through a CTP study can help companies mitigate large construction costs.

What is Construction Tax Planning?

Construction Tax Planning (CTP), unlike traditional cost segregation studies, is a unique approach for helping clients identify tax benefits through accelerated tax depreciation deductions. CTP is a proactive approach to increasing facilities operations and federal tax benefits. Tax benefits are achieved by identifying qualifying assets and documenting their design and construction from the earliest stages of a construction project. Our team draws on the skills of architectural, engineering, and construction management professionals.

Our approach, coordinated with the design and construction team, allows us to fully understand the design, construction and operations of the facility to enable us to analyze each asset from a tax law perspective.

What are the current potential benefits?

Based on a 35 percent tax rate and a 6 percent discount rate, the CTP after-tax net present value (NPV) benefit typically ranges from 6 percent to 7 percent of the construction cost, exclusive of land and furniture, fixtures, and equipment (FF&E). For leasehold improvements in a building less than three years old, for the same period, the CTP benefit typically ranges from 14 percent to 16 percent of the construction cost, exclusive of FF&E. The tenant's portion of the benefit is subject to the amount of the landlord allowance and the agreement between landlord and tenant as to what improvements the tenant's dollars are applied.



In addition, we obtain the contemporaneous documentation that helps sustain the benefits under IRS exam. This includes Design Narratives reviewed and edited by the professionals designing and constructing the building. These professionals have been consistently viewed by the courts as the ultimate authority on what is “building” and what is “not building.” The complete documentation consists of:

1. A numerical audit trail of actual project costs
2. A characterization audit trail
3. Color coded construction drawings highlighting qualifying assets
4. Photographs of relevant assets during installation and after completion
5. Design narratives, described above, evidencing the character of the relevant assets
6. Tax technical support

Our methodology results in an expanded range of benefits when compared to traditional cost segregation, from a larger tax deduction to potential improved facilities management through enhanced fixed asset management.

We spend the time to understand and evaluate the facts and provide new and practical ways to address potential issues. We will tailor the engagement to meet your needs.

Tailored services to meet your needs

Our approach to each engagement is customized to bring to the table the applicable tax planning for the specific facts and circumstances of each situation. We provide an analysis based on componentization for IFRS purposes when relevant. We can also include related services such as Section 174 analysis for identifying soft costs deductible in the current period and review of lighting and other energy systems for Section 179D deductions where appropriate. Our service includes and emphasizes working with the taxpayer’s fixed asset accounting team to implement the results of our studies.

In addition, our service includes, but is not limited to, building a client delivery team with the appropriate professionals based on the engagement parameters and type of construction project. We will meet with contractors, vendors, project manager, engineers, and architects to gain an in-depth understanding of the design intent and how the various systems within a building will function. Based on such discussions, we are able to apply relevant tax law to determine the most appropriate tax treatment of each asset.

Why KPMG?

The Construction Tax Planning group works as a national team that aligns the skills and core competencies of professionals across the country. Our team members include LEED Accredited Professional, licensed architects, professional engineers, and certified public accountants. We have extensive experience and great success in defending our construction tax planning studies under IRS audit. We are familiar with multiple fixed asset accounting software platforms to assist with the implementation of our analysis results.

The CTP group has worked on over 175 significant projects with success in terms of both IRS audit and client satisfaction. On most of these projects, we have coordinated our work with other KPMG practices to provide a unified and integrated team to the client. Based on high-level cost information, we can estimate the tax benefits available for a project. Our services can be better communicated through a relatively brief personal presentation.

Contact a KPMG Construction Tax Planning Professional:

Peter Baltmanis
Principal

T: 214-840-6756

E: pbaltmanis@kpmg.com

Jabir Al-Hilali
Senior Manager

T: 713-319-2236

E: jal-hilali@kpmg.com

Lynn Afeman
Managing Director

T: 617-988-1139

E: lafeman@kpmg.com

Anthony DeLost
Senior Manager

T: 713-319-2277

E: adelost@kpmg.com

Kurt Reichenbach
Managing Director

T: 312-665-1825

E: kreichenbach@kpmg.com

Kevin Turk
Senior Manager

T: 267-256-1795

E: kturk@kpmg.com

Mark O’Connell
Managing Director

T: 213-955-8341

E: mdoconnell@kpmg.com

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