

The Economic Stimulus Act of 2008: Capital Planning Comes Front and Center

The Economic Stimulus Act of 2008 has been the subject of significant media attention, which has been appropriately focused on the tax rebates to be mailed to most individual taxpayers in a few months. Buried in the Act, however, are three provisions that have not received much attention in the press, but affect many taxpayers and businesses for 2008, particularly those that purchase equipment and other tangible personal property, including automobiles.

beginning in 2008, this maximum was scheduled to be \$128,000 of the cost of qualifying tangible personal property placed in service for the taxable year. Under the Act, for tax years beginning in 2008 (and only 2008), the expensing limit is increased to \$250,000. Those who are contemplating equipment purchases should consider this opportunity in their capital and equipment planning.

SECTION 179 EXPENSING

Section 179 of the Internal Revenue Code is an incentive provision that permits certain taxpayers to elect to deduct the cost of certain property in the year of purchase. As one might expect, this incentive, which has been around for numerous years, is subject to limitations. In general, there are three limitations, two of which have been significantly enhanced in favor of taxpayers as a part of the Act.

- The first limitation is an annual maximum expense limitation, which places a cap on the amount of the current deduction that may be claimed by the taxpayer. For taxable years

- The second limitation is the investment threshold. Under this rule, if purchases of qualifying property exceed a threshold, the maximum expense amount decreases for every dollar that the total purchases during the year exceed the threshold. For tax years beginning in 2008, the threshold was scheduled to be \$510,000. Under the Act, Congress has increased the threshold amount to \$800,000, again for one year only.

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Construction Claim Preparation – What to Do When a Dispute Arises

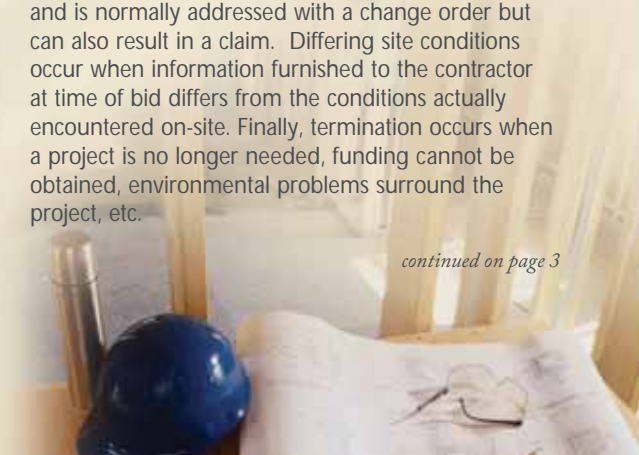
Construction projects are seldom completed as planned and within the contractor's and owner's original budgets – the mere nature of the business is one of ongoing change. Typical reasons for contract changes can include the inability to proceed as planned, an owner changing specifications, changes in the construction sequence, improper material installation or construction methods, and weather delays, among others.

Changes almost always result in increased costs. If the owner and contractor are unable to reach an agreement then a potential claim exists. What should the contractor do?

The first step is to identify the dispute categories that exist. These damage categories may include delay, disruption, scope changes, differing site conditions and possibly project termination. Delay occurs when the contractor has not completed the work within the contract schedule. Causes of this can be late drawings, lack of approvals, defective

material, weather, and labor disputes. The effect of these delays is to increase the total cost of the project which could include job site overhead, equipment costs, labor costs and potential acceleration of work. Disruption occurs when the contractor cannot perform the work as planned. A change in scope is a routine part of completing a construction project and is normally addressed with a change order but can also result in a claim. Differing site conditions occur when information furnished to the contractor at time of bid differs from the conditions actually encountered on-site. Finally, termination occurs when a project is no longer needed, funding cannot be obtained, environmental problems surround the project, etc.

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- The third limitation was not changed by Congress; the amount eligible to be expensed may not exceed taxable income for the year. Thus, as a part of capital and equipment planning, business owners should consider the impact of the income statement and plan accordingly.

BONUS DEPRECIATION

Under the Act, Congress also resurrected the first-year bonus depreciation concept. This concept was originally enacted following the terrorist attacks of September 11, 2001, in order to provide a measure of tax relief for businesses. In general, in the absence of an election under Section 179, the cost of depreciable property is required to be deducted, or depreciated, over its useful life. The amount of the depreciation deduction is determined under the so-called modified accelerated cost recovery system ("MACRS"). Under MACRS, different types of property generally are assigned applicable recovery lives and depreciation methods. For example, the cost of a new computer may not be deducted in the year of purchase, absent an election under Section 179. Rather, under the applicable depreciation rules established by Congress, only 20 percent of the computer may generally be deducted in the year of purchase.

Under the Act, an additional first-year depreciation deduction (referred to as "bonus" depreciation) equal to 50 percent of the cost of "qualified property" may be deducted in the year of purchase. The additional first-year depreciation deduction is allowed for both regular tax and alternative minimum tax purposes for the taxable year in which the property is placed in service. In addition to bonus depreciation, regular depreciation on the remaining portion of the cost of the property may be depreciated. Like the one-year benefit under Section 179, the bonus depreciation rules are available only for one year.

AUTOMOBILE DEPRECIATION

In general, many business owners are aware of the rules that limit depreciation deductions of automobiles under the tax law. Referred to as the luxury auto rules, the deduction for depreciation is limited to annual ceilings established by Congress and updated annually for inflation. For 2007, the maximum deduction was limited to \$3,060.

The Act increases the deduction for purchases in 2008 by increasing the limit for certain passenger automobiles by \$8,000 for automobiles that qualify.



Tax planning questions? Contact Joe Nicola, Tax Director, at 412.594.7006 or jpnicola@sisterson.com.

Sisterson QuickBooks Seminar

Are you a QuickBooks® user? If so, you will want to join us for a complimentary QuickBooks User Group session. No matter what version you use, you will find our sessions to be helpful and informative. Meet our QuickBooks ProAdvisors and take this opportunity to ask them questions about the software. Contact Cheryl Talerico at 412.594.7003 or ctalerico@sisterson.com for upcoming session dates.

Small Tax-Exempt Organizations Beware

If you are involved with the Board of Directors of a small tax-exempt organization (such as your school's PTA or athletic booster association), you need to be aware of a recent tax law change.

The Pension Protection Act of 2006 added a new filing requirement for tax-exempt organizations with gross receipts of \$25,000 or less to ensure that the Internal Revenue Service and potential donors have current information about the organization.

Form 990-N will need to be filed electronically, using a simple, Internet-based process. The first forms are due in 2008 for tax years ending on or after December 31, 2007. Form 990-N will be due every year by the 15th day of the fifth month after the close of the organization's tax year. For example, if an organization's tax year ended on December 31, 2007, the form is due May 15, 2008.

Although Form 990-N should be very easy to file, organizations that are required to file, but fail to do so for three consecutive years will lose their exempt status. Such an organization will need to reapply for recognition of their exempt status and pay the appropriate user fee if they want to regain their exempt status.



Information on filing Form 990-N is available at <http://www.irs.gov/charities/article/0,,id=169250,00.html>.

Questions about Form 990-N? Contact Mike Comstock, Tax Partner, at 412.594.7716 or mmcomstock@sisterson.com

A Facelift for Sisterson.com

Visit www.sisterson.com to see the revised Web site for the Firm. Featured are descriptions of our practice areas and services, bios of our partners, as well as links to archived *Strategies* newsletters. And, soon, we will be contacting clients about a portal that our professionals will be using going forward for file transmission.



Client Spotlight:



Franklin Interiors

Furnishing Workplace Results

Started by the Franklin family in 1945, Franklin Interiors has grown and evolved into a diverse company, providing products and services to help corporate, small business, educational and healthcare clients create and manage their work environments. First known as a residential interior design firm, the company sold high-quality home furnishings and draperies. Over time, the company's services and products expanded to include office furniture. Becoming a Steelcase dealership in the 1960s was a mark of distinction and a significant change in the company's focus.

Ralph Dallier (the former Vice President of Sales at Contract Interiors in Detroit, Michigan) purchased Franklin Interiors in 1992. Since that time, the company has had consistent growth and has become the leading office furniture/flooring company in Western Pennsylvania. Guided by the vision of providing innovative and effective workplace solutions has resulted in a steady growth of new and existing clients of all types and sizes. In 2006, the company expanded its service area to include the state of West Virginia.

Today Franklin Interiors is organized into specialized business units to help understand and meet the unique business needs of its clients.

These business units include:

- Corporate
- Healthcare
- Higher Education
- West Virginia
- Flooring

Each business unit is supported by a broad service offering including project management, labor, asset management, storage, online order entry, flooring installation and an increasingly diverse product mix of flooring, furniture, interior architecture and interactive technology products by Steelcase and more than 200 other manufacturers.

Whether you design them, manage them or work in them, Franklin Interiors helps you create great spaces to work in. They are passionate about helping people love how they work.

For more information visit www.franklininteriors.com

Construction Claim...

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There are several accepted methods to calculating damages. These methods include the total cost approach, the modified cost approach, the estimated cost approach, and the discrete cost approach. The preferred method for preparing damage claims is the discrete cost approach. This method is focused on identifying each specific event that caused the increased cost and then to define and quantify the related costs incurred as a result of the specific event. The other methods outlined above can be used when a lack of information exists to apply the discrete damage claim method.

Important damage calculation requirements include avoidance of duplicate claim items, reasonableness of claimed additional costs, calculations of damages based on the events and conditions causing the claim, and calculations based on the agreed-upon contract pricing. Finally, it is important that the contractor have an in-depth understanding of the terms of the contract.

How can a CPA help? As trained financial professionals, CPA advisors can help identify reasons for the dispute, identify the events and conditions that give rise to damages, quantify the costs (damages), and assist the contractor or business owner by acting as the "expert witness" when the claims are presented.

For best results in a claim situation, instruct all employees and Company representatives to maintain daily journals of project activity and document any potential claim items. Contact a CPA immediately for guidance.

Sisterson has a dedicated group of professionals trained in the areas of construction claim analysis, litigation consulting and claim preparation. Questions on a specific claim matter facing your company? Contact Patrick Gowaty, Consulting Manager, at 412-594-7702 or pgowaty@sisterson.com.

Leadership Dialogue Series

Sisterson is proud to once again present the Leadership Dialogue Series (LDS) in 2008. LDS is a speaker series that has been developed in cooperation with the *Pittsburgh Business Times*, Leadership Pittsburgh, and the Allegheny Conference on Community Development. This year's program, **Leadership Dialogue Series 250**, is designed to coincide with the Pittsburgh 250 celebration. Scheduled speakers are:

April 29

James Rohr, CEO/chairman, PNC Bank

June 17

Ron Davenport, chairman, Sheridan Broadcasting

September 9

Georgia Berner, president, Berner International
Rebecca Flora, executive director, Green Building Alliance

For Event Registration, contact Michele Broda at mbroda@bizjournals.com or 412-208-3817.



New Faces

Karen Karlovits, Associate
Ryan Sulia, Associate

Moving on Up

Joe Nicola has been promoted to the position of Tax Director at Sisterson. Joe has more than 20 years of public accounting experience and has expertise in many diverse areas of taxation.

Certifiably Ahead of the Rest

Congratulations to Senior Associates **Christina Scalo** and **Eric Bates** on passing the CPA exam.

Centers of Influence

In December 2007, Sisterson again participated in a Children's wish program for the Children's

Home of Pittsburgh. Associate **Melanie Horvath** spearheaded the effort, along with Associates **Tiffany Bouch**, **Jessica Fraley**, **Michelle Riley** and **Megan Walsh**; and Administrative Associate **Carrie Salak**.

Associates **Megan Walsh** and **Sara Heald** participated in the Muscular Dystrophy Association (MDA) North Side Lock-Up on February 27, raising more than \$600.

On Sunday, March 9, five teams of Sisterson bowlers participated in Bowl for Kids' Sake to benefit Big Brothers and Big Sisters of Greater Pittsburgh (BBBS). Supervisor **Diane Bradford** and Senior Associate **Linda LeMaster** served on the BBBS Committee and team captains were Tax Manager **Steve Kazakewicz**; Senior Associates **Jon Buck** and **Linda LeMaster**; and Administrative Associates

Amanda Lish and **Carrie Salak**. Through participation in the bowling event and other fundraisers, the firm raised more than \$3,000 to benefit the children of BBBS.

Who's on Board?

Managing Partner **Bill Troup** was recently elected as Treasurer of the Passavant Hospital Foundation and Chairman of its Finance Committee.

Director **Dee Palaschak** currently serves as Treasurer of the South Park High School Boys Soccer Booster Association.

Senior Associate **Jon Buck** was appointed to the Board of Change A Heart, a not-for-profit organization that places volunteers in various organizations where their help is needed.

Senior Associate **Christina Scalo** is a Board Member of the St. Mary's College (Notre Dame, IN) Pittsburgh Alumnae Club. She is in charge of the Young Alumni Committee.

Associate **Megan Walsh** was elected to the Pittsburgh Young Professionals Board of Directors where she serves as Treasurer and also named an advisor to the Membership Committee.

In the News

An article ("Tax Season 2007 and Beyond: Selected Issues for Physicians and Their Practices") authored by Tax Director **Joe Nicola** recently appeared in *Hospital News*.



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