



Today's Contractor

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What Contractors Need to Know about the New Tax Legislation

In March 2010, two new pieces of tax legislation were signed into law that provide opportunities for small business owners. On March 18, President Barack Obama signed into law the Hiring Incentives to Restore Employment (HIRE) Act, which was designed to encourage employers to hire and retain workers. On March 30, the President signed into law the Health Care and Education Reconciliation Act (Reconciliation Act), which modified the Patient Protection and Affordable Care Act (Patient

Protection Act) signed on March 23, thus completing reform of the nation's health insurance and delivery systems.

Incentives for Hiring

The HIRE Act provides incentives for businesses to hire and retain unemployed workers by offering payroll tax forgiveness and tax credits. Under the new legislation, a qualified employer's 6.2% Social Security tax liability is waived for wages paid to previously unemployed new hires for any period starting after March 18, 2010 through December 31, 2010. Both full- and part-time employees can qualify employers for payroll tax forgiveness.

A qualified employee must begin work anytime after February 3, 2010 and before January 1, 2011, and he or she may not have been employed for more than 40 hours during the 60-day period that ends on the day the worker begins employment. A qualified worker is not permitted to take the place of a current employee, unless the employee

Passivhaus Offers *Über* Energy Efficiency

With the high costs of energy, homebuyers are increasingly drawn to well-insulated homes that require minimal heating and cooling. But is it possible to build a home that maintains an optimal indoor temperature with little or no need for additional energy? A system of building originally developed in Germany, the *Passivhaus*, or “Passive House,” has been somewhat successful in achieving this goal, and the lessons learned from this system could change the way homes are constructed around the world.

The *Passivhaus* is not just a house; it is a system with the potential to reduce home energy costs by 70% to 90%, even before accounting for renewable energy usage. Although first created in the 1990s by German physicist Wolfgang Feist, the concept of the *Passivhaus* was inspired by high-performance, “super-insulated” homes built in Canada and the United States during the late 1970s.

By combining thick insulation, optimal solar orientation and shading, an airtight thermal envelope, building materials that minimize thermal bridging, a balanced ventilation system, and ultra-energy-efficient appliances and lighting, a symbiotic system is created that maintains indoor temperature at near-constant levels, regardless of outdoor weather conditions. To meet the *Passivhaus* standard, a building must have an annual demand that does not exceed 15 kWh/sq m per year of heating energy and 15 kWh/sq m per year of cooling energy. The total energy consumption cannot exceed 120 kWh/sq m per year, and the minimum airtightness standard is set at 0.6 ACH @ 50 Pascal pressure.

Passive houses feature far more insulation and energy-efficient materials than the typical home. For example, a 1,200-square-foot *Passivhaus* prototype built in Urbana, Illinois in 2003 includes an insulation layer of 14 inches of

expanded polystyrene (EPS) foam under the 4-inch concrete foundation slab. Meanwhile, 12- and 16-inch I-joists create wall and roof cavities deep enough to allow for a thick layer of blown-in fiberglass insulation. Also, the exterior walls and foundation of the Urbana house are wrapped in 4 to 6 inches of EPS foam. To minimize infiltration, utilities and ventilation ducts enter the house from below the foundation slab, and interior wiring and electrical devices are largely confined to floors and interior walls. The windows are triple-paned with fiberglass frames, with an average U-factor of 0.19.

A south-facing wall of glass in the Urbana *Passivhaus* attracts heat from the sun, and the concrete floor absorbs and slowly releases the heat into the home. To supplement solar heat sources, an underground “earth tube,” or ground heat exchange system, warms incoming fresh air, while an additional ventilation system, the heat recovery ventilator (HRV), uses an electric resistance heating element to recapture heat from the air as it leaves the house. The earth tube and HRV also keep the home cool during the summer.

Houses built to the *Passivhaus* standard generally do not rely on conventional heating systems, other than the heating element in the HRV system. However, solar water heating systems are often installed to ensure the supply of hot water. In addition to gathering energy from the sun, these homes utilize “waste” heat from internal sources, such as warmth generated by cooking, lighting, and the operation of appliances and other electrical devices, as well as body heat from people and animals in the home. Blinds and awnings, sometimes supplemented by trees or other foliage that provide shade in the summer, can help to regulate the temperature throughout the year. Interestingly, windows can be opened without affecting the performance of the system.

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was separated from employment voluntarily or for cause, and a worker who is related to the employer or who directly or indirectly owns more than 50% of the business does not qualify. However, the incentive may apply if a business rehires a worker who was previously laid off.

In addition, businesses that retain a qualified employee for at least a year may qualify for an income tax credit of \$1,000. The Code Section 38(b) business tax credit is increased for each qualified retained worker by the lesser of \$1,000 or 6.2% of wages paid by the taxpayer to the qualified retained worker during a 52-consecutive week period. Thus, given the 6.2% cap, employers would be eligible to collect the full \$1,000 credit for a new hire who earns more than \$16,129 during the 52-week period.

The HIRE Act also extends enhanced purchasing limits for the Section 179 deduction. Small businesses can expense up to \$250,000 of Section 179 property purchased through December 31, 2010, and the amount that may be expensed is reduced once the qualifying purchases exceed \$800,000. No extension of bonus depreciation, however, was included in the bill.

Health Care Reform

Under the Patient Protection Act, as amended by the Reconciliation Act, starting in 2014, all legal U.S. residents not covered by employer-provided insurance or Federal programs like Medicare or Medicaid will be required to obtain health care coverage or pay a penalty, unless certain exemptions apply. Families and individuals with incomes below specified levels will be offered assistance in paying their premiums, and states may create insurance marketplaces to help uninsured individuals obtain coverage.

While many of the core provisions of the legislation go into effect over time, others that affect small businesses became effective immediately. Starting in 2010, small businesses with fewer than 25 employees

that pay at least 50% of the health care premiums for their employees qualify for a tax credit up to 35% of their premiums. The amount of the credit for a specific business depends on the number of employees and the average wage. Starting in 2011, employers and other entities providing minimum health coverage will be required to report the value of health benefits to the IRS, and this value will appear on employee W-2 forms.

While employers will not be required to offer health care plans under the new legislation, starting in 2014, a business with 50 or more full-time employees (defined as working 30 or more hours per week) will be required to pay \$2,000 per worker per year for all workers if even one of the company's employees qualifies for and accepts a Federal health insurance premium subsidy. The first 30 employees are subtracted from the payment calculation. Additionally, employers face a potential tax penalty of \$3,000 per full-time worker per year for every full-time worker who qualifies for a health insurance coverage premium subsidy. Employers that offer health care coverage may in some cases be required to provide "free choice vouchers" to employees with incomes less than 400% of the Federal Poverty Level (FPL) whose share of the premium exceeds 8%, but is less than 9.8%, of their income and who choose to enroll in a plan in the exchange.

An amendment sponsored by Sen. Jeff Merkley (D-OR) that was added to the Senate version of the health care reform bill would have required construction companies with six or more employees and annual payrolls of more than \$250,000 to provide health care benefits to their workers. Although the provision was dropped from the bill prior to passage, Merkley may seek to reintroduce the measure as a standalone bill or as an attachment to another bill.

For more information on the new legislation and how the provisions affect small businesses, consult one of our qualified tax professionals.

construction trend data

Bolstered by public works building activity, new construction starts for February were up 5% from January. Nonbuilding construction jumped 19% and residential building rose 5%, while nonresidential building declined 7%. Total construction starts for the first two months of 2010 amounted to \$57.2 billion, essentially unchanged compared to the same period of 2009.

The improvement in nonbuilding construction was driven by growth in highway and bridge construction (37%), as well as the sewer (15%), water supply (39%), and electric utilities (44%) categories. In the residential building sector, single family housing saw a 3% improvement, and multifamily housing rose 23%. Despite 25% growth for educational buildings, nonresidential building declined after a strong January, due to slides in construction of healthcare facilities (-34%), manufacturing plants (-24%), and churches (-28%).

“The pattern shown during February is what’s expected for 2010 as a whole—more public works construction, improved activity for residential building, but further weakness for nonresidential building,” said Robert A. Murray, vice president of economic affairs for McGraw-Hill Construction.

Total new construction starts by region for the first two months of 2010 were as follows: South Central, down 11%; Northeast, up 31%; Midwest, up 2%; West, down 6%; and South Atlantic, down 1%.

Year-to-Date Construction Contract Value Unadjusted Totals, In Millions

	2 Mos. 2010	2 Mos. 2009	% Change
Nonresidential Building	\$21,125	\$25,453	-17
Residential Building	17,274	13,588	+27
Nonbuilding Construction	18,833	18,093	+4
Total Construction	\$57,232	\$57,134	0

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Passivhaus Offers Über Energy Efficiency

Because the airtight construction of the passive house blocks unwanted moisture, drafts, and external noise, while providing optimal air quality through constant ventilation, these houses are often comfortable, especially for allergy sufferers. While building to the *Passivhaus* standards is more expensive than using traditional construction techniques, the energy savings are immediate, and the use of high-quality durable materials can reduce the need for repairs. With passive houses now costing just 5% to 7% more to build in Germany than conventional houses, the cost of building these homes is expected to decrease, especially as more energy-efficient materials and technologies become available in the United States.

While the *Passivhaus* system results in ultra-low energy buildings that require little energy for space heating or cooling, it is just one set of standards used by contractors, designers, and builders to create energy-efficient homes and other buildings. Other guidelines, such as zero-energy buildings and green buildings, also combine principles and techniques such as super-insulation, passive solar design, and advanced window technology to lower energy use. Regardless of the method, lower energy use can benefit our environment, while lowering utility bills, increasing comfort, and improving building durability.