



# Today's Contractor

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## Outdoor Living Spaces Add Comfort and Value to Homes

The days when a backyard was just an expanse of grass may be gone, as more Americans have come to view their yards as an extension of their home that can be used for dining with family, entertaining friends, or simply relaxing next to a fire after a long day at work. Adding an outdoor “room” to a home can increase the value of the property and serve as a selling point in a competitive real estate market.

Al fresco living tends to be associated with milder climates and areas relatively free from insects. But, as

technologies for warming outdoor living spaces and controlling pests become more sophisticated, homeowners across the country can enjoy spending time outdoors for longer stretches of the year.

An outdoor living space can consist of a relatively simple patio or deck with an open-air barbecue grill, or it may be more elaborate, with multiple levels and a fully equipped, roofed kitchen. Because these spaces are generally used for dining and entertaining, outdoor cooking areas are often central to the design. Increasingly, refrigerators, countertops, sinks with hot and cold water taps, and even large-screen televisions are found in outdoor rooms.

As building an outdoor living space can entail the installation of gas, electric, cable, water, and sewer lines, it is important to consult utilities providers—as well as plumbers, electricians, and other relevant subcontractors—during the design phase of these projects. Depending on local zoning ordinances, it may also be necessary to ensure that building codes are followed and permits are

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secured. For more complex projects that involve large amounts of planting and the construction of water features, a landscape designer may also be consulted.

While outdoor cooking areas can resemble indoor kitchens in some ways, they are different in others. To start, the appliances and materials used outdoors may have to withstand the elements. For kitchen counters and shelving, materials may range from high-end granite to less-expensive, pressure-treated wood. Because entertaining and dining are generally the main focus of outdoor living spaces, the countertop may be extended to become a bar where guests can gather. A dining table and chairs are often positioned on a flagstone patio next to the kitchen or grill. As applicable, it is important to consider the dining area's susceptibility to wind and privacy from the street.

To provide radiant warmth and light on a chilly evening, many outdoor living spaces have fireplaces or fire pits. Hearth products can range from a specially constructed brick fireplace with a chimney to an inexpensive, freestanding fire pit. In some communities, however, burning wood in the open air may not be allowed, and there may be specific rules concerning the use of fireplaces and fire pits. Where wood burning is forbidden, gas fireplaces can often be used to simulate a wood

fire. The warmth provided by fires can also be supplemented by freestanding heat lamps.

Outdoor living areas may be covered in a variety of ways to provide protection from the elements. Retractable canvas awnings, tents, or umbrellas are flexible, though less sturdy options. A patio or deck may be partially covered by a pergola or shade trellis, or a freestanding gazebo may provide some shelter. While a porch or an extension of the house roof can be more expensive, these options may offer greater protection. To cool the area and help control insects, ceiling fans, bug zappers, and specialized lighting can also be installed.

In addition to creating dining and living areas, some homeowners may be interested in designating separate parts of the yard for other uses, such as a swimming pool, a play area for children, a wellness area with a hot tub, or a secluded "Zen" garden with a water feature for meditation. Walls, fences, terracing, raised decks, or strategically placed bushes can be used to demarcate areas with different functions, creating privacy and minimizing noise.

Outdoor rooms can provide opportunities for homeowners to more fully utilize their property, dining with family, entertaining friends, or simply enjoying time of respite. In addition, outdoor living spaces can increase the value of the home and attract buyers in a competitive real estate market.

## Congress Approves Two-Year Extension of Lower Tax Rates

While it did not include stimulus funding aimed specifically at the construction industry, the \$858-billion tax relief package signed into law by President Obama in December contains a number of provisions that affect business owners, including extensions of tax breaks for investments in equipment and renewable energy by businesses. The new law also includes an extension of reduced tax rates on individual income and dividends/capital

gains, a reduction in payroll taxes, an AMT patch, and estate tax relief through 2012.

Among the key provisions of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act (2010 Tax Relief Act) are the following:

**Income tax rates extended through 2012.** Under the 2010 Tax Relief Act, lower individual income tax rates (10%, 15%, 25%, 28%, 33%, and 35%) are

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extended through 2011 and 2012. These rates went into effect under the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), but had been scheduled to revert to their previous levels (15%, 28%, 31%, 36%, and 39.6%) after 2010. The new law also contains a two-year continuation of the repeal of the personal exemption phaseout (PEP) and the limitation on itemized deductions (“Pease” limitation) for higher-income taxpayers.

**Tax rates on capital gains and dividends extended through 2012.** In 2010, qualified capital gains and dividends were taxed at a maximum rate of 15%, and taxpayers in the 10% and 15% income tax brackets paid no tax on qualified capital gains and dividends. Under the 2010 Tax Relief Act, these rates are extended through 2012. Had no legislative action been taken, the maximum capital gains rate would have risen to 20%, and qualified dividends would have been taxed at ordinary income tax rates, with a top rate of 39.6%.

**Payroll tax reduced for 2011.** For wages earned in calendar year 2011, the employee share of payroll taxes is lowered from 6.2% to 4.2%, up to the taxable wage base of \$106,800. Self-employed individuals owe 10.4% on self-employment income up to the threshold.

**AMT relief provided for 2010 and 2011.** Under the 2010 Tax Relief Act, the exemption amounts for the Alternative Minimum Tax (AMT) are increased for 2010 and 2011. For 2010, the exemption amounts are raised to \$47,450 for singles, \$72,450 for married couples filing jointly, and \$36,225 for married couples filing separately. For 2011, the equivalent amounts are \$48,450, \$74,450, and \$37,225. Without this “patch,” the exemption amounts would have fallen to \$33,750 for individuals, \$45,000 for married couples filing jointly, and \$22,500 for married couples filing separately.

**Estate tax returns with a top rate of 35% and an exclusion of \$5 million.** Under EGTRRA, the Federal estate tax was gradually reduced and

disappeared altogether in 2010, but it was scheduled to be reinstated in 2011 at pre-2002 levels. Under the 2010 Tax Relief Act, the estate tax returns with a maximum tax of 35% and an exclusion amount of \$5 million for 2011 and 2012 only.

**50% bonus depreciation raised to 100%.** Under recent tax reform, qualified businesses were given the option of depreciating 50% of the adjusted basis of the property for qualifying property bought and placed in service in 2008 through 2010. The 2010 Tax Relief Act increases the 50% bonus depreciation to 100% for qualified investments made after September 8, 2010 through December 31, 2011, and it also makes 50% bonus depreciation available for qualified property placed in service in 2012. In addition, certain long-lived property and transportation property is eligible for 100% expensing if placed in service before January 1, 2013.

**Section 179 expensing extended through 2012.** For 2010 and 2011, businesses are permitted under the Small Business Jobs Act of 2010 to expense up to \$500,000 of Section 179 property, and the amount that may be expensed is reduced only if the cost of the Section 179 property exceeds \$2 million. Under the 2010 Tax Relief Act, a \$125,000 dollar limit (indexed for inflation) and a phaseout beginning at \$500,000 (indexed for inflation) is in effect for 2012. After 2012, the limit reverts to \$25,000, with a phaseout beginning at \$200,000.

**Research tax credit extended through 2011.** The Code Section 41 research tax credit, which had expired at the end of 2009, is continued for two years, through December 31, 2011.

**Energy tax credits for individuals and businesses extended.** Many of the energy credits and deductions set to expire at the end of 2010 are extended for one or two years under the new legislation, including business credits for biodiesel and renewable diesel fuel, the credit for refined coal facilities, the new energy-efficient home credit for builders

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# construction trend data

With strong surges in the nonresidential and nonbuilding sectors, new construction starts for December jumped 19%. Between November and December, nonbuilding construction advanced 29%, nonresidential building climbed 25%, and residential construction grew 3%. Total construction starts amounted to \$412.5 billion for 2010, down 2% from 2009. However, this represents a far less decline than the 24% drop that occurred between 2008 and 2009.

The growth in nonbuilding construction was attributable in large part to the starts of major electric utility projects across the country. Strong advances in nonresidential construction were led by a 172% increase in new construction of healthcare facilities. In residential building, single family housing rose 2%, and multifamily housing increased by 7%.

“The construction start statistics during the past year fluctuated over a set range, with December

coming in at the high end of that range,” said Robert A. Murray, vice president of economic affairs for McGraw-Hill Construction. “In effect,” he added, “the pace of contracting has stabilized, after the steep correction of prior years, although renewed expansion for total construction has yet to take hold given this ongoing up-and-down pattern.”

Total new construction starts by region for the 12 months of 2010 were as follows: Northeast, up 4%; South Central, down 3%; South Atlantic, down 11%; West, up 1%; and Midwest, down 1%.

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

	12 Mos. 2010	12 Mos. 2009	% Change
Nonresidential Building	\$152,033	\$167,955	-9
Residential Building	119,360	111,851	+7
Nonbuilding Construction	141,078	141,899	-1
Total Construction	\$412,471	\$421,705	-2

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and manufacturers, tax credits for alternative fuel and alternative fuel mixtures, and the credit for the purchase of energy-efficient appliances.

In addition, individuals who make certain energy efficiency improvements to their homes are eligible to claim tax credits worth up to 30% of their investment, up to a total lifetime limit of \$1,500, for products or improvements placed in service through December 31, 2011.

**Extension of the Work Opportunity Credit (WOTC).** The WOTC, which provides businesses that hire members of certain “targeted groups” with a credit of up to \$2,400 on the qualifying first-year wages paid to each employee, would have expired after August 31, 2011. Under the 2010 Tax Relief Act, the WOTC is extended for new hires who

begin employment after August 31, 2011 and before January 1, 2012, though certain groups who had previously been targeted no longer qualify for this credit.

**Extension of 100% exclusion on sales of small business stock through 2011.** Under the Small Business Jobs Act of 2010, investors are permitted to exclude 100% of the gain from the sale of certain small business stock acquired and held for more than five years, up from 75% previously, and the excluded gain is not subject to the AMT. To qualify, the stock must have been purchased before January 1, 2011. Under the 2010 Tax Relief Act, this 100% exclusion is extended for one more year to cover stock purchased before January 1, 2012.

For more information on the 2010 Tax Relief Act, contact one of our qualified tax professionals.