

# Tax Savings For Sub-Contractors

Understanding R&D Tax Credits,  
179D Deductions, and changes  
from the OBBBA



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# About Boyer & Ritter, LLC

Boyer & Ritter is regional accounting and advisory firm delivering practical solutions, strategic insights, and deep industry expertise. With 100+ years of service, a local presence and a national reputation, our team provides high-value guidance across audit, tax, and advisory needs. With 130 professionals we are committed to helping clients improve profitability, manage risks, strengthen operations, and achieve long-term success.

# Objectives



Research & Development Tax Credits

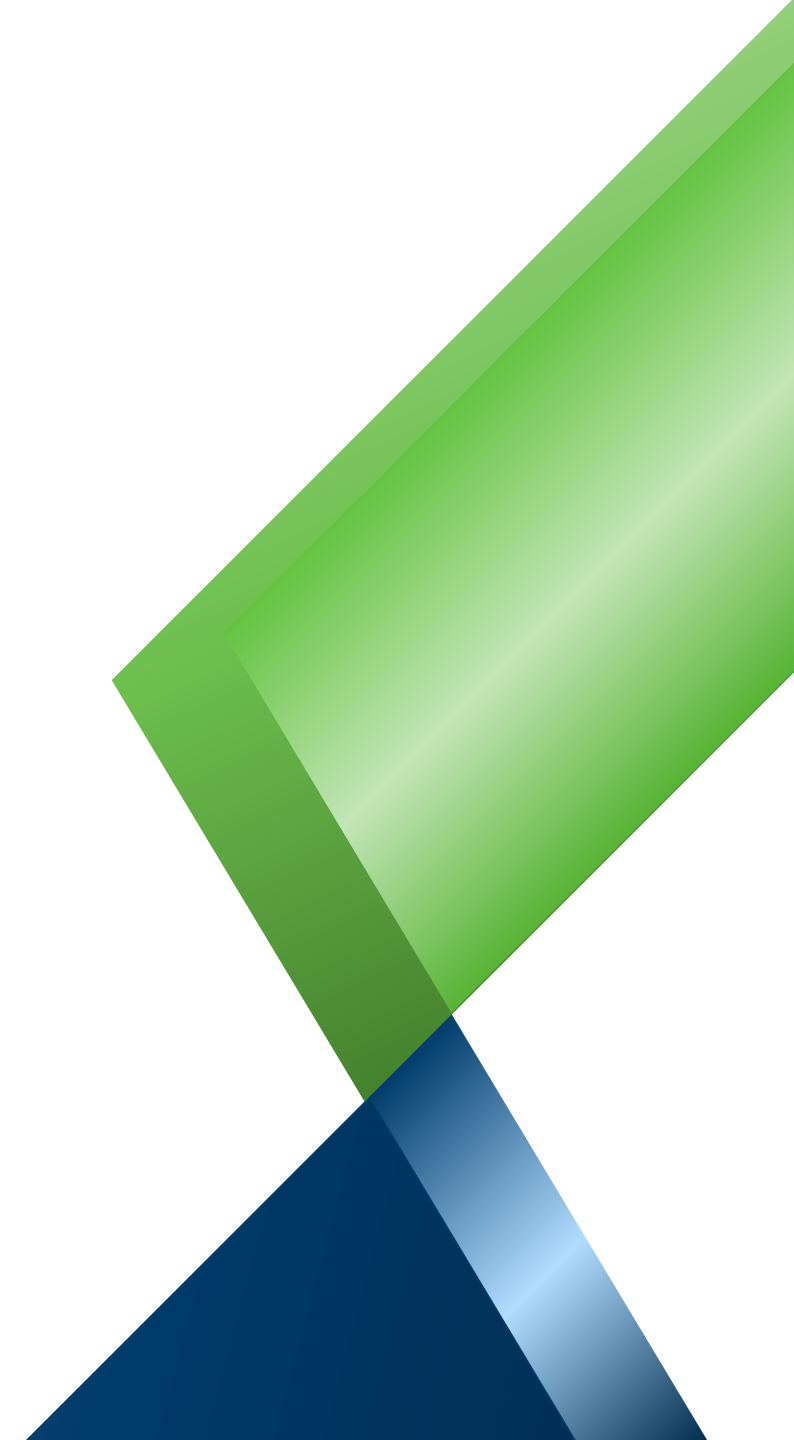


179D – Energy Efficient Commercial Building Deduction



Overview of tax savings for Subcontractors under the One Big Beautiful Bill Act (OBBBA)

# **Understanding the R&D Tax Credit for Subcontractors**



# R&D Credit

## What is it? Who is it for?



Federal tax credit that incentivizes businesses to increase investment in qualified research and development (R&D) activities



Produces a dollar-for-dollar credit to offset taxes



Designed to encourage innovation by reducing the after-tax cost of R&D investments



Credit is based on a percentage of qualified research expenses (QRE) above a calculated base amount



Available to businesses of all sizes and across most industries, with special provisions for small businesses and startups

# Why Am I Hearing About R&D so Much Right now?

## Prior To OBBBA

- Qualifying expenses
  - Domestic: Amortized over 5 years
  - Foreign: Amortized of 15 years
- Often not beneficial in first year or two due to addbacks of expenses



## Under OBBBA

- Fully expense qualifying expenses in year incurred
- Elect to expense any unamortized expenses from prior years in 2025
  - Small biz under \$31M avg
- Explicitly includes software development

# R&D: Not Just for People in Lab Coats

## Common Misconceptions

Many subcontractors mistakenly believe the R&D tax credit only applies to laboratory research and scientists.

## Eligibility in Construction

The credit rewards companies solving technical problems through experimentation common in construction projects.

## Financial Benefits

Subcontractors can unlock significant tax savings and improved cash flow by understanding their eligibility.

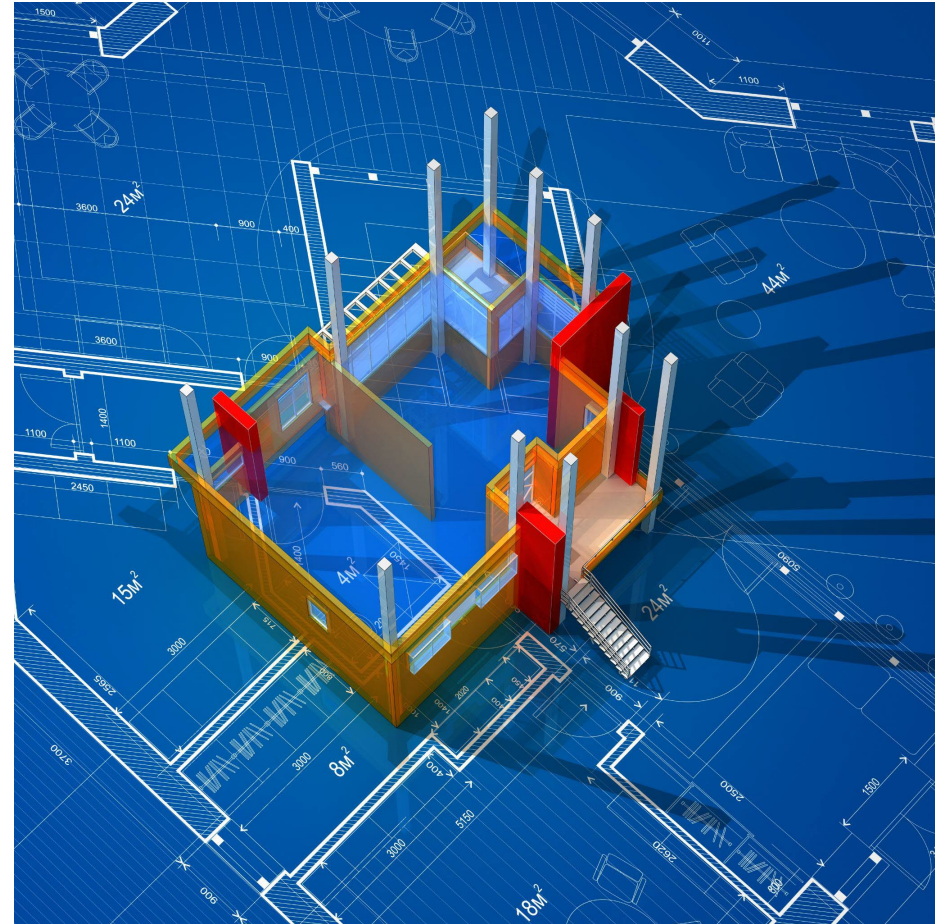
## Permanent Tax Credit

The R&D tax credit is a permanent part of tax law supporting innovation across industries.



# The R&D Credit in Construction

- Rewards solving technical uncertainty via experimentation
- Covers improvements to designs, systems, methods, or processes
- Iteration counts; even if results change or fail
- Applies to subcontractors as well as GCs and designers



## When Work Qualifies (and When It Doesn't)

- Qualifies: uncertainty at the outset; evaluation of alternatives; reliance on engineering tools/methods; results in a new or improved outcome (functionality, reliability, efficiency)
- Doesn't: routine/repetitive construction to plan; aesthetic choices; clerical/administrative work; QA that doesn't test alternatives

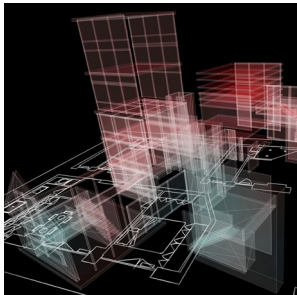


# How Subcontractors Perform R&D Without Realizing It



## Unrecognized R&D Activities

Subcontractors often perform R&D through custom technical solutions without realizing these qualify for tax credits.



## Use of Modeling Tools

BIM and CAD modeling help resolve clashes and test design assumptions, supporting R&D efforts.



## Documentation and Benefits

Documenting R&D activities enables subcontractors to claim tax credits and improve financial outcomes.



# Practical Examples of Qualifying Activities



# Real Examples: MEP Subcontractors

- **Rerouting Due to Conflicts**
  - MEP subcontractors reroute ducts or pipes to resolve unforeseen conflicts, demonstrating innovative problem-solving.
- **Engineering Solutions for Requirements**
  - Engineering efforts address ventilation, load, and pressure needs through technical experimentation and refinement.
- **Modeling and Field Testing**
  - Multiple modeling iterations and field testing verify solutions when design assumptions fail, ensuring functionality.
- **Tax Credit Benefits**
  - Documenting R&D activities allows MEP subcontractors to claim tax credits and improve cash flow.





# Real Examples: Concrete & Steel Trades

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## **Redesigning Rebar Layouts**

Trades redesign rebar layouts to accommodate site or load changes, requiring technical precision and innovation.

## **Testing Forming and Shoring Methods**

Alternative forming and shoring methods are tested to improve construction efficiency and safety under variable conditions.

## **Custom Fabrication and Welding**

Developing custom fabrication sequences and welding procedures addresses unique project requirements and challenges.

## **Engineering Unique Load Solutions**

Engineering solutions for special load or anchoring conditions involve experimentation and adaptation to ensure safety and compliance.

# Real Examples: Site/Civil Contractors

## **Soil Stabilization Evaluation**

Contractors evaluate soil stabilization methods to enhance ground durability and meet project standards through technical experimentation.

## **Stormwater and Grading Adjustments**

Adjusting stormwater and grading plans ensures compliance with performance requirements and effective water management.

## **Material Testing and Modeling**

Testing materials for compaction and drainage and modeling slope or water movement involves experimentation for optimal design.

## **Benefits of Documentation**

Documenting R&D activities helps contractors qualify for tax credits and improve project outcomes through innovation.



# Eligibility and Financial Impact



# What Expenses Count Toward the Credit

## Eligible Employee Wages

Wages for employees performing qualifying design, technical work, and supervisors count toward the R&D tax credit.

## Third-Party Contractor Costs

Sixty-five percent of third-party contractor expenses related to qualified R&D activities are eligible for the credit.

## Supplies Used in Testing

Certain supplies used in testing or prototyping qualify as eligible expenses for the credit.

## Maximizing Credit Benefits

Accurate tracking and documentation of eligible expenses help subcontractors maximize R&D tax credit benefits.



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# How Much Money Are We Talking About?

## **Federal Tax Credit Percentage**

The federal R&D tax credit returns 6% to 10% of qualified expenses, providing substantial tax savings annually.

## **Example Tax Credit Savings**

A company with \$1,000,000 in qualifying wages may receive \$60,000 to \$100,000 in federal tax credits each year.

## **Renewable Source of Capital**

R&D credits can be claimed annually, providing subcontractors a renewable source of capital for ongoing research activities.



# Add-On: State Credits

## State R&D Tax Credits

Many states offer R&D tax credits that can be combined with federal credits to increase total tax savings.

## Maximizing Financial Benefits

Combining federal and state credits allows subcontractors to maximize financial benefits and improve cash flow.

## Professional Consultation

It is essential to consult professionals to understand requirements and documentation for claiming state credits.



# Good News for Small or Start-Up Companies

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## R&D Tax Credit Accessibility

The Payroll R&D Tax Credit allows small firms to offset payroll taxes up to \$500,000 annually, even if not profitable.

## Cash Flow Relief

This tax credit provides significant cash-flow relief, helping small firms sustain growth and innovation investments.

## Encouraging Innovation

Access to these credits enables subcontractors to continue investing in talent and new technology development.



# Claiming and Documenting the Credit



# Can We Go Back and Claim Missed Credits?

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## **Retroactive Credit Claims**

Subcontractors can amend prior tax returns to claim missed R&D tax credits from past years.

## **Audit Risk Misconceptions**

Proper documentation minimizes audit risk, which is often overstated when claiming credits retroactively.

## **Professional Assistance**

Working with experienced professionals helps subcontractors confidently claim missed credits and improve finances.



# Documentation: What You Already Have Is Usually Enough

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## Essential Documentation Types

Payroll data, job costing, contracts, invoices, and technical drawings are key for R&D tax credit claims.

## Role of Professionals

Professionals interpret existing documentation to meet IRS requirements, easing subcontractors' burden.

## Importance of Strong Paper Trail

Maintaining organized documentation ensures claims are defensible and audit-ready.



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# What a Good R&D Process Looks Like

## **Identify Qualifying Projects**

Recognize projects that meet criteria to qualify for R&D tax credits, focusing on innovation and development.

## **Gather Information and Costs**

Interview teams and collect detailed job cost data to ensure accurate documentation for credit claims.

## **Evaluate Technical Challenges**

Assess technical obstacles and iterations within projects to demonstrate R&D activities effectively.

## **Prepare Documentation Package**

Compile comprehensive documentation supporting the R&D credit claim to maximize eligibility and compliance.



# **Case Examples and Addressing Misconceptions**

# Real Life Example 1

## Electrical Design and Installation

### The Facts

- Revenue Approx \$13M
- First Time R&D Credit; Amended back to 2022
- Qualifying expenses
  - 2025: \$1.9M
  - 2024: \$2.0M
  - 2023: \$1.7M
  - 2022: \$1.8M



### The Benefits

Total Savings: \$706K in TAXES

- 2025: \$170K
- 2024: \$200K
- 2023: \$148K
- 2022: \$189K
- Plus state (PA) credits for 2025

# Real Life Example 2

## Mechanical Contractor

### The Facts

- Revenue Approx \$20M
- First time for R&D
- Qualifying expenses
  - 2025: \$930,000



### The Benefits

Total Savings: in TAXES

- 2025: \$51k
- Additional state (PA) credits for 2025 going forward
- Plus, we are in the process of amending prior years' tax returns

# Real Life Example 1

Concrete Structures, Paving, Bridges, Curbing

## The Facts

- Revenue Approx \$13M
- First Time
- Qualifying expenses
  - 2024: \$253K
  - 2023: \$333K
  - 2022: \$303K
- Pre-OBBBA ad back expenses created additional taxable income



## The Benefits

Total Savings: \$54K in TAXES

- 2024: \$12K
- 2023 \$23K
- 2022: \$19k

Additional Savings from addback of unamortized costs of \$614k

- Approx \$160k in taxes



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# Addressing Common Misconceptions

## **Misconception: Only Lab Research Qualifies**

Many believe only laboratory research qualifies, but technical uncertainty in construction often meets R&D criteria.

## **Misconception: Firm Too Small to Benefit**

Small firms can benefit from payroll tax credits designed to support their R&D efforts.

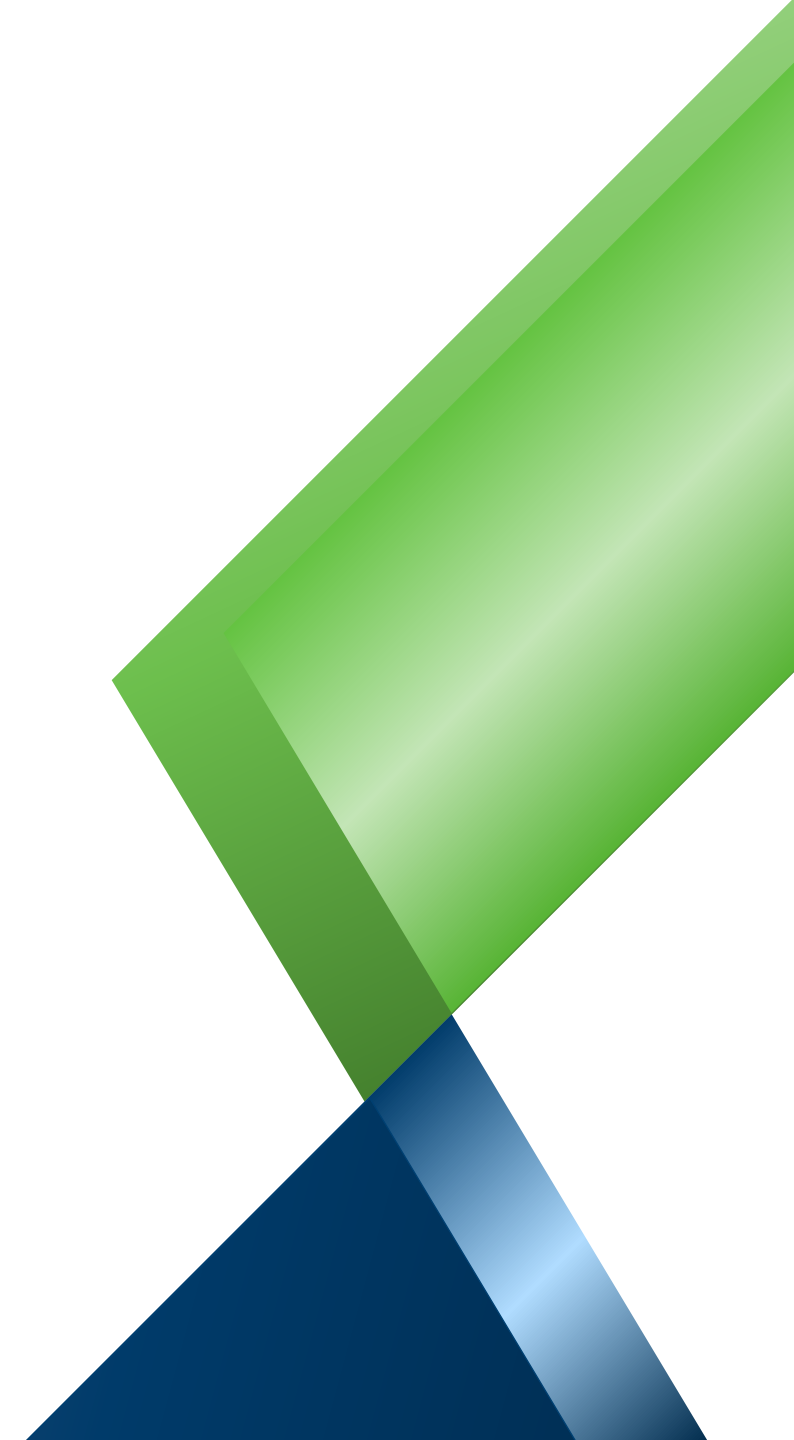
## **Misconception: Documentation Too Burdensome**

Existing project documentation is often sufficient to claim R&D credits without extra burden.

## **Misconception: Fear of Increased Audit Risk**

Proper documentation and compliance reduce audit risks when claiming the R&D tax credit.

# **Understanding 179D - Energy Efficient Commercial Buildings Deduction**



# Overview of 179D

- What it is: A per-square-foot tax deduction for energy-efficient systems in commercial buildings
- Who can benefit?
  - Owners of buildings
  - Designers on governmental or other tax-exempt owner projects (church, NFPs, etc)
- Construction must begin before June 30, 2026 for current rates.
  - Switch in less favorable metrics for PIS 2027

# How to Qualify as a Subk

- IRS definition (core idea): A “designer” is the party that creates the technical specifications for the installation of the qualifying property. Merely installing to someone else’s specs doesn’t qualify.
- Subs who can qualify: Design-build MEP subs or specialty subs that prepare and own the stamped design/technical specs for lighting/HVAC/envelope (e.g., you engineer and specify equipment and sequences, not just install).
- Subs who don’t qualify: Labor-only installers, repair/maintenance contractors, or those following another party’s sealed drawings/specs.
- Multiple designers: The owner may allocate to one or split among several designers based on contributions.

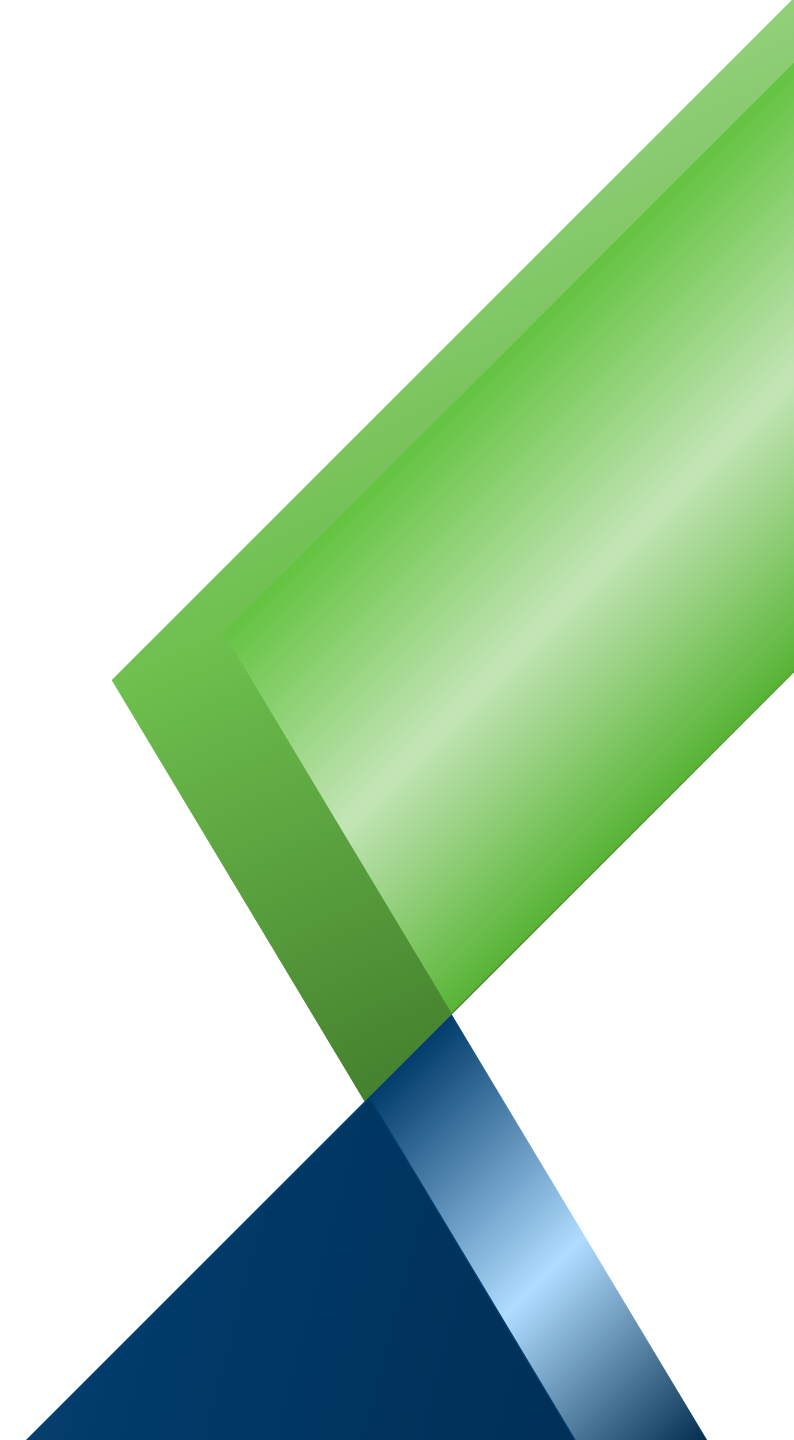


# How much is the Deduction

- Roughly \$0.50–\$1.00/sf base; OR
- \$2.50–\$5.00/sf if you meet the Prevailing Wage & Apprenticeship rules (this 5× bump depends on energy savings and labor compliance)
- Example: 100,000 sf school/church = \$500,000 deduction



# **Other OBBBA Tax Savings For Subcontractors**



# Other OBBBA Provisions



Permanent 100% Bonus Depreciation



Section 179 Expense Limit Increase



Modification of Business Interest Deduction Limitation



Simplified Accounting for Residential Construction Contracts

# Q&A

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