



Crowe POC Manager™ Solution

Automating the Percentage-of-Completion (POC)
Tax Compliance Process

After years of sluggish activity, the construction and manufacturing industries are bouncing back.

As a result, many companies are realizing more revenue. However, the increases in taxable income and liabilities, as well as higher accounts receivable, can negatively affect cash flows. Properly deployed tax strategies, explicitly approved in the Internal Revenue Code (IRC), can help generate cash flow by reducing immediate tax liability through deferrals of taxable income.

Taking proactive steps to reduce tax liability and protect cash flow can help you get the most out of improving market conditions.

Managing POC Tax Compliance

IRC Section 460 generally requires using a POC accounting method to calculate taxable income from contracts not completed within the taxable year. POC is determined by comparing annual costs, allocated to the contract and incurred before the close of the tax year, with total estimated contract costs at completion to calculate taxable income.

Construction Example

A construction company has a \$1 million contract and estimated costs of \$700,000, leaving \$300,000 in profits for financial reporting (book) purposes. As the company incurs costs, it must compare actual and estimated costs to compute POC.

If the company has incurred \$350,000 in actual costs, the POC is 50 percent. Applying that percentage to revenue, the company will recognize \$500,000 in revenue with \$350,000 in costs for book purposes, leaving \$150,000 of gross profit.

For tax purposes, the company in this example has many options for deferring and potentially reducing the taxable income using one or more of the following accounting methods:

- The 10 percent election method
- Retainage payables
- Nondeductible expenses allocable to the job
- Contract aggregation
- The capitalized cost method
- The simplified cost allocation method

Despite the potential benefits, the process often is viewed as complicated and time-consuming. Using our proprietary technology, we can help make capturing the benefits of these methods much more efficient.

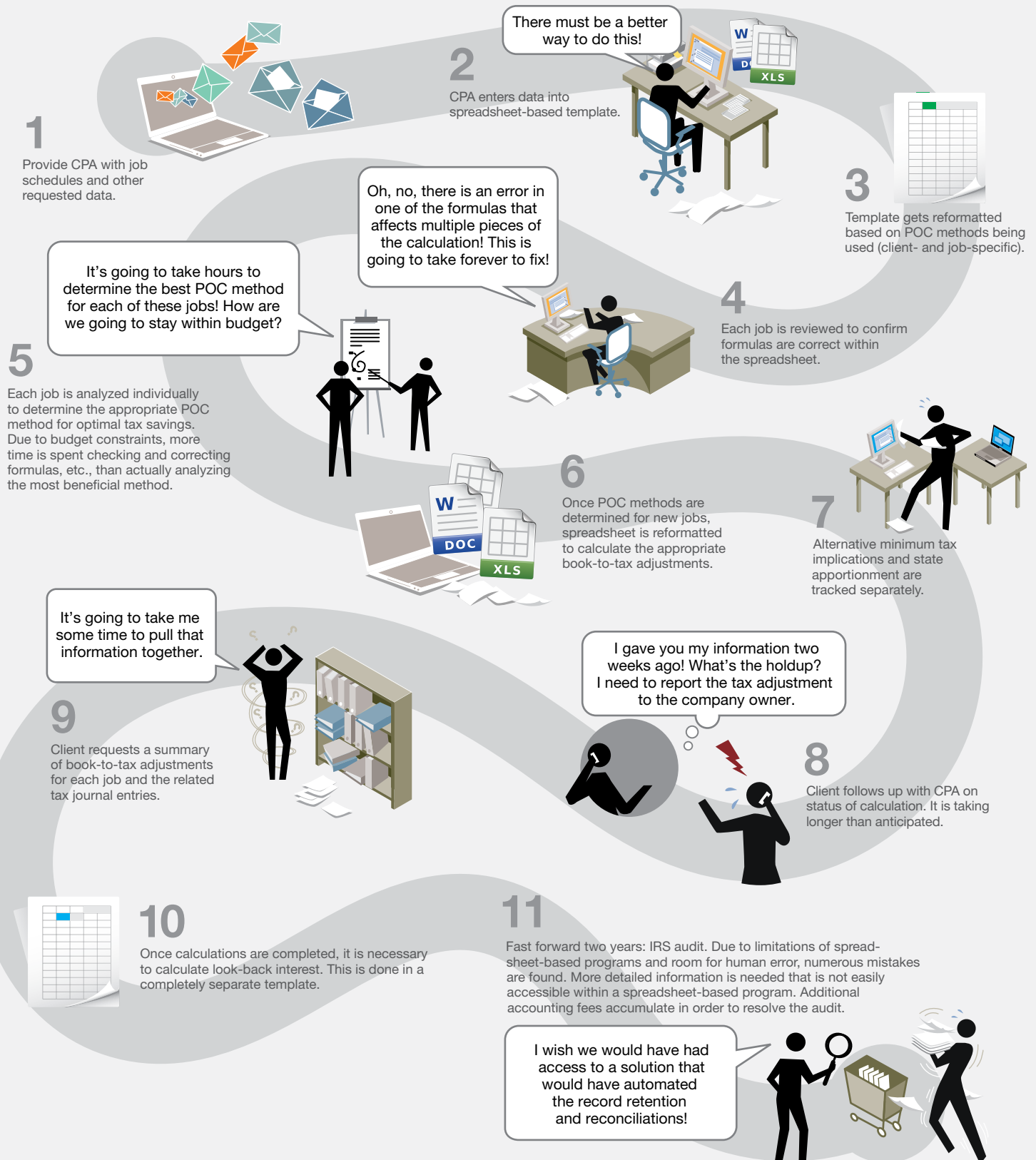
Deducting Costs at the Right Time

Many companies are reluctant to take the time to select an optimum POC method, thinking the benefits are minimal and don't outweigh the time and costs. The administrative burden of applying separate methods for book and tax purposes and performing computations on a contract-by-contract basis can be labor-intensive if a manual spreadsheet method is used.

The Crowe POC Manager solution is a tax calculation tool developed by experienced tax professionals to automate the POC tax compliance process for organizations with long-term contracts. The Web-based solution incorporates distinctive features to help simplify the comparison between tax accounting methods, including:

- Dynamic comparisons of book-to-tax differences for selected methods
- Work-in-progress and other on-demand reporting
- An automated grid to view detailed and summarized job information
- Drill-down reconciliation capabilities
- Automated calculations of look-back interest and completion of Form 8697
- Access to multiyear, secure data

Without the Crowe POC Manager Solution



1 Provide Crowe with job schedules and other requested data.



That was so easy!

2 Crowe uploads data into the Crowe POC Manager solution. No reformatting or checking of formulas is necessary.

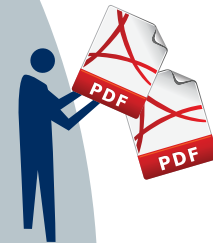


3 The Crowe POC Manager solution analyzes each job individually and determines the appropriate POC method for optimal tax savings.



This is great! I'm able to focus my time on analyzing the best tax method for the client and not fixing formulas.

4 Once POC methods are determined and the calculations are run, the Crowe POC Manager solution efficiently runs numerous reports to give the client the information needed in an easy-to-read format.



5 The Crowe POC Manager solution simultaneously tracks alternative minimum tax implications and state apportionment information.

6 Crowe is able to follow up with the client in a timely manner, allowing adequate time to plan for tax implications in conjunction with other tax adjustments.



7 With a few additional steps, look-back interest is calculated using the same information in the same software, allowing this information to be shared with the client much earlier in the process.



That was quick! This gives the company owner plenty of time to decide next steps.

8 Fast forward two years: IRS audit. With all documentation stored in one place, reports are generated and detailed information is gathered efficiently. This includes job-specific information that can be easily accessed. No mistakes are found.



I'm so glad we have Crowe POC Manager!



Reducing Taxable Income

Using the Crowe POC Manager solution to determine the optimum POC method can help you reduce current year tax obligations to the lowest allowable amount. Efficiently digging into the costs and determining what should be deducted in a future year for tax purposes can reduce the year-end percent complete on various jobs. In turn, these steps can defer revenue (and tax liability) to a future year, allowing your company more cash in hand to use to help expand your business.

The solution helps you consider all potential costs eligible for deferral, including vacation accruals, deferred compensation, warranty reserves, meals and entertainment expenses, insurance, and more. The Crowe POC Manager solution provides an automated system to help reduce the time and costs of a manual process or higher-cost tax resources. In addition, the solution's features provide access to insights to help improve cash flow and reduce tax exposure. Some examples are:

- Incorporating exception-based reporting and filters
- Selecting an optimal method for new joint ventures
- Determining interim calculations for publicly held organizations
- Analyzing jobs using data drill-down capabilities
- Accessing peer benchmarking data
- Formulating customized analysis of projects, geography, and more
- Gaining visibility into the status (WIP) of individual projects
- Preparing journal entries for tax and Schedule M adjustments

What are the benefits?

- Simplify selection of the optimum accounting method(s).
- Customize and scale to any size organization.
- Streamline processing for a quicker turnaround.
- Filter and prepare tailored reports.
- Automate uploads of client information.
- Improve data accuracy using a centralized repository.
- Refer to prior year calculations with secure data retention.
- Increase staff efficiency compared with spreadsheet-based tools.
- Provide documentation and analysis in the unlikely case of an IRS audit.
- Project tax liabilities earlier in the process.



Addressing Challenges With Tax Optimization Opportunities

By combining our knowledge of accounting requirements, tax compliance, and IRC 460 tax methods with industry best practices, we were able to develop an innovative tax technology solution to increase the efficiency of POC tax compliance. Crowe is committed to continuing to enhance innovative technology solutions already developed to help address the challenges you face.

Find out how the Crowe POC Manager solution can help you take advantage of opportunities to reduce tax obligations.



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About Crowe

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