

Construction Accounting and Financial Management

Chapter 13 Projecting Income Tax

Construction Accounting & Financial Management, 3/e
Steven Peterson

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Corporate Income Tax

- Pays tax at:
 - Corporate level and
 - Personal level on dividends
- Paid by:
 - C corporations
 - Some partnerships

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Personal Income Tax

- Income tax passes through the company to the individual
- Paid by:
 - ❑ Sole proprietorships
 - ❑ Some partnerships
 - ❑ S corporations
 - ❑ Limited liability companies

Taxable Income

- Taxable Income = Income – Tax Deductions
- Not all cost are tax deductible
 - ❑ Only 50% of meals and entertainment are tax deductible
 - ❑ Limits on charitable donations
 - ❑ Passive losses cannot offset non-passive gains
- Unused (unallowed) losses may be carried forward

Payments of Income Tax

- Payment of income taxes is due quarterly

Corporate Income Tax Rates

Corporate Federal Income Tax Rates for the Year 2010

Taxable Income (\$)		Tax is (\$):	Of the amount over
Over	But Not Over		
0	50,000	15%	0
50,000	75,000	7,500 + 25%	50,000
75,000	100,000	13,750 + 34%	75,000
100,000	335,000	22,250 + 39%	100,000
335,000	10,000,000	113,900 + 34%	335,000
10,000,000	15,000,000	3,400,000 + 35%	10,000,000
15,000,000	18,333,333	5,150,000 + 38%	15,000,000
18,333,333		35%	

IRS, *Instruction for Form 1120, 2010, p. 18*

Personal Income Tax Rates—Single

Personal Income Tax Rates for a Single Person for the Year 2011

Taxable Income (\$)		Tax is (\$):	Of the amount over
Over	But Not Over		
0	8,500	10%	0
8,500	34,500	850.00 + 15%	8,500
34,500	83,600	4,750.00 + 25%	34,500
83,600	174,400	17,025.00 + 28%	83,600
174,400	379,150	42,449.00 + 33%	174,400
379,150		110,016.50 + 35%	379,150

IRS, *Tax Withholding and Estimated Tax*, Publication 505, 2011, p. 34

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Personal Income Tax Rate—Married

Personal Income Tax Rates for a Married Persons Fling Jointly for the Year 2011

Taxable Income (\$)		Tax is (\$):	Of the amount over
Over	But Not Over		
0	17,000	10%	0
17,000	69,000	1,700.00 + 15%	17,000
69,000	139,350	9,500.00 + 25%	69,000
139,350	212,300	27,087.50 + 28%	139,350
212,300	379,150	47,513.50 + 33%	212,300
379,150		102,574.00 + 35%	379,150

IRS, *Tax Withholding and Estimated Tax*, Publication 505, 2011, p. 34

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Marginal or Incremental Tax Rate

- Tax rate paid on last dollar of income

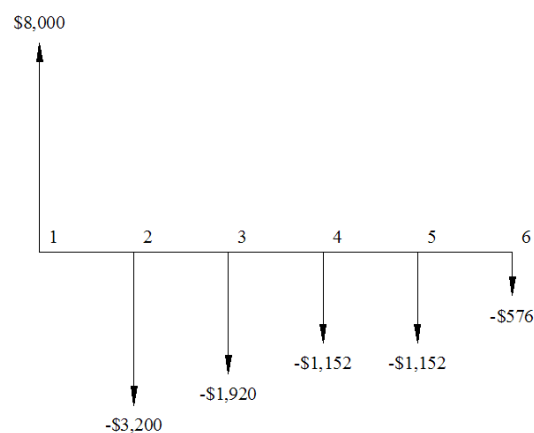
Capital Gains or Losses

- Gain or loss on the sale of capital assets
- May be taxed at a different rate than standard income

Tax Consequences of Depreciation

- Spreads tax savings out over more years

Difference Between Cash Flow and Deductibility of Depreciation



Tax Credits

- Reduce taxes not taxable income
- Some credits cannot be used to reduce both taxable income and taxes

Alternate Minimum Tax

- Alternate method of calculating income tax for those who have a lot of tax deductions
- Renders some deductions useless

Projecting Income Tax

- Use when projecting cash flow for the company
- Companies who pass their income tax through to their investors need to disburse cash so their investors can pay the income tax