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# Home Builders and the Completed Contract Method of Accounting

CONSTRUCTION, TAX  
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For tax purposes, large construction contractors are generally required to utilize the percentage-of-completion method of accounting to report taxable income from long-term contracts. The percentage-of-completion method of accounting recognizes profit on jobs as costs are incurred. However, IRC Section 460(e) provides for two exceptions that allow taxpayers to potentially defer taxable income under an exempt contract method.

The first exception applies to contracts estimated to be completed within two years by a taxpayer whose average annual gross receipts for the three taxable years preceding the year the contract is entered into is less than \$10M. The second exception applies to any home construction contract, without regard to the taxpayer's average gross receipts.

By utilizing the home construction contract exception, large homebuilders have the potential to realize significant income deferral under one of the exempt-contract methods of accounting. One of the exempt-contract methods of accounting is the completed contract method, which allows taxpayers to defer taxable income generated from the job until the contract is completed. As a result, any taxpayer who enters into home construction contracts should consider whether it would be advantageous for his or her business to compute taxable income for these contracts under the completed contract method.

Please contact us to discuss the potential application of the completed contract method to your business and visit our [Construction services page](#) to learn more about the services that the Schneider Downs Tax Advisors offer.

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