



TAX IDEAS FOR A BOOMING INDUSTRY

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The construction industry is alive and well in 2017. As a major force in New York and the greater US economy, it employs more than 6 million workers at 650,000 companies, while creating structures worth nearly \$1 trillion each year, according to the Associated General Contractors of America.

As the industry advances, we see companies growing in both size and profitability. This growth and prosperity, however, triggers increases in corporate and personal income taxes, challenges to managing cash flow, and a host of other business challenges. In order to maximize success, contractors need a proactive planning process, guided by qualified advisors.

Contractors face a number of unique challenges in operating their businesses in today's competitive marketplace. These challenges include attracting and retaining key employees, maximizing safety, managing insurance costs, training your workforce and keeping up with technological trends that can increase efficiency and optimize manpower among others.

Historically speaking, maintaining cash flow has been one of the largest challenges facing contractors. No matter the size of your business or your position as a trade contractor, general contractor or construction manager, it is always challenging to manage payments to vendors and subcontractors as well as payroll to employees, in coordination with the timetable to receive payments on contracts for work performed. Setting expectations for each contract's cash flow requires proper planning. In addition to all of this, funds need to be available for income taxes so adequate provisions need to be made.

With the proper tax planning and structuring, a contractor can plan for and minimize income taxes and hereby improve their cash flow. With well-developed strategies and proper planning, they can achieve a consistent deferral of income taxes from year to year. These tax strategies can be utilized by companies of all sizes, both growing and well established firms.

These strategies relate to the tax accounting methods available for contractors to report their income and expenses on their contracts. The methods depend on the type of work being done, length of the contract, payment terms with customers, payment terms with subcontractors and vendors, etc.

It's imperative for every construction

company to develop an effective tax strategy to improve cash flow and reduce borrowing needs. This also positively effects the company's financial statements, especially for S Corporations and partnerships since less distributions for the owners' personal taxes are needed, resulting in higher equity on the statements. As a company grows, these

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benefits should grow as well with the proper reflected planning.

Proper structure of your company can help you capitalize on tax planning, including taking advantage of available tax credits.

This is a continuous process. Regular discussions with your accounting firm about your business and outlook are necessary to properly execute your tax plan. In addition to these taxable income deferrals, there are also a number of additional deductions and tax credits that are available for contractors. Tax credits programs create a dollar for dollar reduction of tax liability.

Tax credits programs include:

RESEARCH & DEVELOPMENT TAX CREDITS

The industry has been transformed by design build innovations such as BIM (Building Information Management) modeling and GPS laser plotting along with a push for more energy efficient, "greener" designs. Many activities performed by companies in the construction industry qualify for R&D tax credits.

Your tax advisor should help you identify the work you perform that may be applicable from the following services: acoustics, noise and vibration, air quality testing and evaluation, electrical engineering, environmental assessments, traffic and transportation, and more.

WORK OPPORTUNITY TAX CREDIT

A federal income tax credit may be available for each new hire that is a member of certain targeted groups. Those groups include unemployed and disabled veterans, summer youth employees in Empowerment Zones or qualified long-term unemployment recipients, among other targeted groups.

STATE AND LOCAL CREDITS

Your tax advisors should be able to guide you through the maze of constantly changing state and local regulations, and programs that are available. These also include applicable credits and incentives offered by economic development agencies in your city and state. These may be based on employment, investment in facilities and equipment and other factors. In some cases, the state benefits could exceed the federal benefits.

Special deductions available for contractors include:

DOMESTIC PRODUCTION DEDUCTION (SECTION 199)

A broad range of production activities are covered by Section 199, also known as the Domestic Production Activities Deduction ("DPAD"), which allows a deduction equal to 9% of the lesser of a taxpayer's qualified activity or its taxable income. The qualified activity could include all of a company's construction, engineering and architectural services.

ENERGY TAX CREDITS (SECTION 179D)

"Green" or "Energy" deductions may be available for developers, or for contractors involved in the design of a public works project, based on when the project was actually completed and placed into service.

As you can see, there are many tax saving opportunities for contractors. Planning throughout the year is extremely important to achieve your goals. Ongoing work with outside accountants and advisors will help you create a winning strategy. Your businesses' tax plan should continually be monitored, as your business evolves and grows.

Working with an advisory team skilled and experienced at identifying qualifying projects and initiatives in each area of your business is a must. Industry experts who are familiar with construction taxes will help you maximize your tax saving opportunities.

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