On-Site

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Dollars and sense

Tips on managing and reducing payroll costs

Every construction company must pay its employees, so some payroll costs are unavoidable. But precisely *how* you should go about paying your employees can change over time. What made sense a few years ago may not be as logical or efficient now. Let's look at some ways contractors can streamline payroll tasks to keep costs down.

Simplify, where feasible

One way to save time and money on payroll activities is to simplify them. Can any hourly employees be converted to salary? Fixed pay saves a lot of time when calculating hours worked, overtime and time off. Obviously, you need to approach this strategy selectively. But if you have, say, a proven, skilled worker who's ready to become a project manager, converting him or her from hourly to salaried could simplify your payroll at least a little bit.

Upgrade your timecards

As you're no doubt aware, timecards are key in the construction industry. Requiring hourly employees to submit their cards daily, rather than weekly, can increase accuracy to reduce over- or underpayments. When employees track their time weekly, the margin for error is much greater.

Daily timecards can also help deter false workers' compensation claims, which cost construction companies thousands of dollars annually. One way to fortify your defense here is to add the following statements to timecards:

- I was/was not injured today.
- Describe the injury in detail:
- I did/did not witness an injury today.
- Describe the injury in detail:

Another approach is to automate your daily timecards. Collecting paper timecards and manually inputting them into a computer creates major risks of data entry errors because of trouble reading employees' handwriting. With labor-tracking software, your accounting department won't have to input anything. Instead, time records are sent wirelessly from the field, allowing office employees to see time punches, activities performed and job locations.

On a similar note, if you're still cutting hard copy checks to pay wages, consider switching to direct deposit or Automated Clearing House (commonly referred to as "ACH"). Doing so reduces the risk of fraud while eliminating the time and expense of physically printing out and mailing checks. (Employees without bank accounts can receive a prepaid debit card.)

Trim your tax bill

When it comes to payroll taxes, a money-saver to consider is augmenting your workforce with independent contractors. Freelancers pay their own employment and Social Security taxes, and companies typically don't have to provide benefits. Plus, when project budgets tighten up, it's relatively easy to eliminate contract positions quickly.

Just be sure to approach independent contractor relationships carefully. Under some circumstances, the IRS may seek to reclassify independent contractors as bona fide employees. If it's successful, you could be put on the hook for payroll taxes and possible penalties.

Construction companies may also be able to lower payroll taxes by offering full-time employees a Flexible Spending Account. Employees use these accounts to spend pretax dollars on health or dependent care expenses, which lowers their taxable income.

Integrate payroll with projects

Having systems in place to tie payroll more directly to projects can help with scheduling, estimating and budgeting. Many construction-specific accounting software packages offer applications that include payroll features to help automate and streamline functions such as timecard entry and direct deposit. They can also enable you to generate standard payroll and certified payroll reports (such as prevailing wage and statements of compliance), as well as conduct equal employment opportunity and benefit/deduction reporting.

A good construction payroll implementation should offer multistate, multilocality and multijob processing to automatically calculate changing pay rates and different tax rates and deductions. It should also handle the general ledger ramifications of an employee moving from the field (direct costs) to the shop (indirect costs) or to the office (general and administrative labor costs).

Get the right help

If you're finding yourself completely overwhelmed by payroll responsibilities and costs, there's always the option of outsourcing payroll processing to a qualified provider. When taking this step, however, make sure to look for one with experience in the construction industry. Above all, consult with your CPA for further information and ideas on managing and reducing payroll costs.

5 payroll errors to avoid

Payroll errors are costly. Here's a quick list of five of the most common payroll mistakes:

1. Failing to register the business. Construction companies must see about registering their business in each state, municipality and city in which they perform work — and they are required to withhold and pay the income and employment taxes proper for those jurisdictions.

2. Deducting the wrong amount. Although federal employment taxes are fairly straightforward, each state, municipality and city has its own rules — and those tax rates frequently change. Ensure state and local tax-rate changes are incorporated into your company's payroll calculations.

3. Misclassifying employees. As mentioned (see main article), use worker-classification criteria to determine whether someone is an independent contractor or bona fide employee. The rule on this is: Be careful.

4. Filing late or paying late. It's important to stay up to date on all government deadlines, including paying taxes, record keeping, and reporting requirements. The Trust Fund Recovery Penalty imposed by the IRS for late unpaid withholdings can be very steep and incriminate the owners.

5. Neglecting to provide W-2 and 1099 forms. The IRS imposes penalties on employers if employees aren't provided with a W-2 by January 31. A penalty also applies to the 1099-MISC form, which must be issued to each independent contractor who was paid $600 or more during the tax year.

Why it's a good idea to review your business plan

Most construction companies start out with a business plan: a road map that outlines goals and details how to achieve them. But once a business is up and running, this document tends to get buried in a file cabinet or on a hard drive.

Construction company owners, however, would benefit from digging out their business plans at year end — or better yet, quarterly. Here are a few reasons why regularly reviewing and revising yours can position your company for continued success.

To monitor performance

Comparing revenue plan projections with actual results helps companies identify pain points as well as the most profitable operational components. A key question to ask is, "Are profit margins higher or lower than expected — and why?" Examining the answer(s) to this question could lead to:

- Adding staff or equipment to meet growing demand,
- Expanding into construction services that will likely boost profits,
- Tweaking jobsite processes to increase efficiency, or
- Flagging unprofitable types of projects.

With the right information in hand, you can recalculate forecasts to respond to current and developing market conditions. In turn, you should be able to set budgets and project milestones to meet those revised projections and keep the company moving forward.

To identify competitive threats

Periodically reviewing his or her business plan provides a contractor with the opportunity to take a hard look at the business and ask questions such as:

- Are we still meeting our customers' needs?
- Has our target market changed?
- Has the local economy changed?
- Are new regulatory rules impacting operations?
- Are there more or fewer competitors in our market?

The answers to these questions can help redirect a business into more profitable jobs and markets. They can also help construction professionals prepare for disruptions in the industry or address new competitive threats.

To trumpet your accomplishments

Sharing key details from a business plan can reinforce with others that your construction company started with a plan and is meeting the goals laid out. For example, you can celebrate milestones met with informed employees, who should have

a better idea of how to prioritize their activities to fulfill the company's mission. You can also use an up-to-date business plan to recruit new employees and introduce new hires to the company's culture.

A sound, regularly revised business plan is also an effective means of attracting new partners, suppliers, investors and sources of financing. These entities will likely want to know your company's basic business concept, market, strategy, financial performance and — particularly in the case of vendors and lenders — its ability to pay bills on time. An updated business plan will accurately provide that information.

Dust it off

A construction company's business plan shouldn't be just a "book report" that's written once when the business is launched and then forgotten. It's essentially a baseline for monitoring progress and keeping the company on track.

The targets laid out in the plan should become performance goals, with regular reviews of the plan enabling you to determine whether your company can meet those goals or if it needs new ones to accommodate a changing market. So, if you haven't done so lately, dust off that old business plan and see where you're headed!

Deconstructing the TCJA's deduction for business income

We're fast approaching the one-year anniversary of the passage of the Tax Cuts and Jobs Act (TCJA). All these months later, the law continues to challenge tax experts and business owners alike as they try to implement strategies to maximize the tax savings from the act.

One example is the new tax deduction for qualified business income (QBI) that's available to eligible owners of "pass-through" entities, including many construction companies. It's a potentially valuable break, but you'll need a CPA's guidance to properly claim it. Let's deconstruct it a bit to lay the groundwork.

A new twist

Pass-through entities are businesses whose earned income "passes through" to owners' personal returns, where federal income tax liability is then assessed. Examples include sole proprietorships, partnerships, S corporations and, typically, limited liability companies (LLCs).

If you operate your construction company under one of these entity types, you're probably aware that there's never been any special tax treatment applied to business income that passes through to your personal return. You just pay taxes on it as you do on your other ordinary income. But, with the introduction of the QBI deduction, also referred to as the "pass-through deduction" or the "Section 199A deduction," that has changed.

Qualified business income

For tax years beginning on or after January 1, 2018, and before January 1, 2026, the TCJA establishes a new deduction based on a noncorporate owner's QBI. For purposes of this tax break, QBI can generally be defined as the net amount of qualified items

of income, gain, deduction and loss from any qualified business of the noncorporate owner.

The deduction is available to individuals (as well as estates and trusts) that own interests in qualifying business entities. It isn't allowed in calculating an owner's adjusted gross income, but it reduces taxable income. In effect, it works like an itemized deduction — though you don't have to itemize to claim it.

It generally equals 20% of QBI, subject to certain restrictions. The restrictions begin to phase in when an owner's taxable income (before the QBI deduction) exceeds $157,500 — or $315,000 for married couples filing jointly. They fully apply when income reaches $207,500 and $415,000, respectively.

Boundaries to beware of

Payment of relatively low employee wages may limit this tax break. If an owner's taxable income is high enough that the income-based restrictions fully apply, the maximum amount of the QBI deduction can't exceed 50% of the total W-2 wages paid to all employees of the business (including wages paid to owners) or the sum of 25% of W-2 wages plus 2.5% of the cost of qualified property — whichever is greater.

"Qualified property" is depreciable tangible property (including real estate) owned by a qualified business as of year end and used by the business at any point during the tax year to produce QBI.

A change to consider

This QBI deduction could signal to some contractors that it's time for a change. Some owners of sole proprietorships or single-member LLCs with no employees don't pay themselves (or anyone else) W-2 wages. Instead, they take the net income of the business for themselves once they've paid all other business expenses in cash.

The deduction is available to individuals (as well as estates and trusts) that own interests in qualifying business entities.

If you've run your company in this manner and your income is high enough that the W-2 wage limit applies, now may be a good time to start paying yourself W-2 wages. Otherwise, you won't be able to claim this valuable new deduction.

Worth the effort

Note that, if your construction company is a C corporation, you aren't eligible for the QBI deduction. But the TCJA likely provides tax savings to you, too. It replaces graduated C corporation income tax rates that topped out at 35% with a flat rate of only 21%.

Navigating the complexities of the TCJA may not be easy, but doing so is worth the effort. As mentioned, work with your CPA to identify and implement the right strategies.

How can we get more from online marketing?

We're a third-generation family business. For many years, our construction company dominated its local market. But, over the last decade, the competition has gotten stiffer. All these newer contractors seem to know how to reel in customers on the Internet. Our business has a website, but our return on investment has been poor. How can we get more from our online marketing efforts?

Like any other business investment, an online marketing effort can spend dollars wisely or it can squander them. The key is to start slowly on low-cost strategies and only invest more when you've identified a viable avenue to reach customers. Here are some basics that generally pay off:

Update your website. A construction company's website should be more than a glorified brochure. It should convey a strong brand and be easy to navigate on both computers and mobile devices. If your website hasn't been redesigned in a while, you should probably spend enough money to remodel it in a way that will best reach your customer base.

Create engaging content. In addition to clearly communicating contact info and services, your site needs to express the history and values of the business. Your company's multigenerational story, for example, is a great way to build goodwill.

You can also post profiles of key employees and case studies of recent projects that showcase your work. Although videos and/or blogs on construction-related topics may widen your audience, you risk deterring bigger customers if you reveal you're working only on smaller jobs. Identify and stay true to your customer base.

The tricky thing about content, however, is that you must update it regularly, which isn't easy when you're busy completing projects. One low-cost idea is to engage a marketing intern to help build an archive of content that you can post throughout the year. You could also incentivize employees to contribute ideas and content.

Get social. Once you've established yourself online, use social media platforms such as Facebook, Twitter and LinkedIn to maintain visibility and drive traffic to your website. Engaging a community of people who are interested in construction-related topics with you as a thought leader can be an effective marketing strategy. But the greater your exposure, the greater your risk of stating something in error or publicizing a misstep.

So, use social media regularly but sparingly. Do some research and set up a plan for regular posting. Then, give it some time (at least six months), carefully monitor the results, and adjust your investment of time and money accordingly.

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The 2017 Tax Cuts and Jobs Act (TCJA) made several changes to the tax deductibility of meal and entertainment (M&E) expenses. In an effort to avoid any lost tax savings, businesses should properly classify their M&E expenses according to the percent deductible. The new deductible limitations apply to any amounts paid or incurred after December 31, 2017.

Descriptions of the three levels of deductible expenses (0%, 50%, and 100%) and the items subject to each limitation follow:

Zero percent deductibles include two categories of entertainment expenses. The first is any activity considered to be entertainment, amusement, or recreation, even if substantial business discussion occurs. The other relates to facility costs incurred in connection with entertainment or recreation activities.

The **50 percent** deductible applies primarily to meals, including those occurring during employee travel and provided for the convenience of the employer. Other deductible expenses include de minimis meals provided to employees (while these may be infrequent and impractical to account for) and those related to business meetings of employees, owners, or directors. Finally, the 50 percent deductible applies to food and beverage costs related to business meetings (e.g., business lunch meetings with clients) and to office snacks.

The three categories of **100 percent** deductibles are expenses for goods, services, and facilities made available to the general public; reimbursed food and beverage costs; and recreational, social, or similar activities primarily for the benefit of employees (e.g., company picnic, holiday parties, etc.).

As noted above, entertainment expenses are no longer deductible. It is expected that the IRS will issue additional guidance on how the new rules apply specifically to M&E expenses. Until that new guidance is provided, it is reasonable to rely on prior M&E guidance. In a previous revenue ruling, the IRS stated that meals or beverages are deductible "if the circumstances are of a type generally considered to be conducive to business discussion ...." Surroundings that are considered to be conducive to business discussion include restaurants and hotel dining rooms. Surroundings not considered to be conducive include entertainment at night clubs and sporting events.

TCJA also states that no deduction is allowed for membership dues pertaining to any club organized for "business, pleasure, recreation or other social purpose." However, it is generally accepted that this may have been an inadvertent provision, so businesses should await further guidance on the deductibility of these costs.

In summary, businesses should review their charts of accounts and make any necessary changes so that their M&E expenses are coded to the proper accounts that correspond to the deductibility of each expense. It is advised that businesses review their entire M&E systems and processes so that they can accurately analyze and record these expenses in accordance with the new tax rules.

If you are interested in learning more about this topic or others related to TCJA, our Tax Services Group professionals welcome the opportunity to talk to you and answer your questions.