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How to become an employer of choice

In many parts of the country, spring means a weather warmup and more projects underway. It can also be a time of desperation, when contractors need to hire new employees before the busy season takes hold.

With the construction industry continuing to face a nationwide shortage of skilled labor, it's critical to look for any edge you can find to distinguish your company from the competition as an employer of choice. Here are some ideas for doing just that.

Share your story

Everyone has a story. When we tell our stories, we open the door for communication and connection. The same holds true for businesses — and, make no mistake, many skilled workers know they're in demand and can be picky about whom they choose to work for.

So, get candidates emotionally invested, or at least intellectually interested, in your business. Share how your company was founded and what it's been through. Naturally, you'll also want to explain where it's headed through a carefully crafted mission statement that guides everyone who works for you.

In addition, let job candidates know how your services help customers resolve their issues or reach new heights of satisfaction and prestige. Show off noteworthy projects and profile star employees. Include client testimonials from feedback from project partners such as subcontractors, architects or developers.

The vehicles for doing all this should include your company website, social media and printed recruitment materials. Don't be shy with the photographs and videos; these media tend to carry substantial weight with Millennials and Generation Zers out there looking for work.

Appeal to their humanity

When human beings look for employment, they seek a variety of things. Everyone wants to get paid, of course, but, on a more fundamental level, employees want to be safe (in every sense). More so than other businesses, construction companies have a clear mandate in this area because there are so many physical risks on most jobsites.

In short, and assuming it's a good one, tout your safety record. Demonstrate to candidates that you have a strong safety culture that encompasses a wide variety of procedures to keep them from harm. If you offer incentives under a formal safety program, talk about that.

Another way to appeal to today's younger workers is to embrace technology. A workplace that enables them to use the tools they're comfortable with — smartphones, tablets, even wearable tech — will likely entice

many candidates. If your company uses technologies such as building information modeling and drones, be sure to mention it.

Also, promote how you provide training and development, both formal and on the job, to help employees establish and enhance their skill sets. Training and continuing education (sometimes called "upskilling") can include industry certification courses, webinars and hands-on instruction by manufacturers, as well as mentoring and job shadowing.

Get involved in the community

This is more of a long-term approach to improving your marketability as an employer. But it's well worth pursuing. How does your company give back to the community? Do you give employees opportunities to make contributions or volunteer their time?

Many job seekers, especially younger ones, find community involvement to be an appealing component of a company's culture. In addition, if your employees already participate in a company softball team, annual golf tournament or some other company-sponsored extracurricular event, be sure to share these team-building activities with job applicants.

Compensate competitively

You were probably wondering when we'd get around to mentioning this. Yes, money talks and job candidates will walk if you pay significantly lower than competitors. Of course, it's not within the means of most construction companies to simply elevate compensation to astronomically high levels.

So, try to assemble a total package of attractive pay, benefits and perks. Use benchmarking to determine dollar averages in your local market and then look for ways to gain an edge. Could you offer an affordable retirement plan where competitors can't? Or maybe you can develop a health care plan that offers good coverage without being too costly. There are many variations to consider these days.

Perfect a perception

The ability to attract quality employees boils down to how job seekers perceive your construction company. The more enticing the image you build, the more likely they'll take your recruitment efforts seriously and sign up.

5 quick tips on finding skilled workers

Placing a want ad in the local paper doesn't go quite as far as it used to. Here are five quick tips on finding skilled construction workers:

1. Hire from within. By providing ongoing training and even apprenticeships, you may be able to create skilled workers from seasonal hires or basic laborers.

2. Offer referral bonuses to employees. Not only does every employee have his or her own personal network of family, friends and other potential job seekers, but he or she can explain first-hand why working for your company is great.

3. Attend job fairs. These are often hosted by community colleges, universities, local governments and community organizations.

4. Leverage social media. Don't be shy about posting job openings on your company's Facebook page or on LinkedIn, Twitter, Instagram or other social media platforms.

5. Cast a wide net online. Look for every feasible resource to get your job postings out there, including well-known hiring websites such as Craigslist.org, Monster.com and Indeed.com.

TCJA could inspire you to change your business structure

Since its passage in late 2017, the Tax Cuts and Jobs Act (TCJA) has given business owners and their tax advisors plenty to think about. One ongoing item of interest to contractors is whether their chosen business structure still makes sense in light of tax law reform.

What's the deal?

The TCJA slashed federal corporate income taxes from a top rate of 35% to a flat rate of 21%. So, many construction companies organized as pass-through entities — such as S corporations, limited liability companies (LLCs) and partnerships — are rethinking their entity choices.

An owner's share of pass-through income continues to be taxed at individual income tax rates as high as 37% (down from 39.6%), so converting to a C corporation may seem like a no-brainer. But while some businesses may benefit from converting, the decision isn't just a matter of comparing a 37% rate to a 21% rate. There are many factors to consider in estimating your company's net effective tax rate as a C corporation vs. its net effective rate as a pass-through entity.

Are you eligible?

The TCJA permits certain pass-through owners (including sole proprietors) to deduct 20% of their qualified business income (QBI) from the entity. (However, the deduction may not exceed 20% of an owner's taxable income excluding net capital gains.)

QBI generally means your allocable share of the company's net income — excluding certain items,

such as investment income, reasonable compensation from an S corporation and guaranteed payments from a partnership. Assuming you're in the 37% tax bracket, receive only QBI from the company and qualify for the full deduction, your effective pass-through rate will be 29.6%. This is still higher than the corporate rate, but, given potential double taxation of corporate income, it may be enough to tip the scales in favor of pass-through status.

Is there a catch?

The pass-through deduction is subject to two important restrictions that may reduce or eliminate its benefits:

1. Material participation limit. If you're a passive investor in a pass-through entity, you may be subject to an additional 3.8% of taxation under the net investment income tax (NIIT) on your share of the company's income. The tax applies to individuals with modified adjusted gross incomes (MAGIs) exceeding $200,000, or $250,000 for joint filers. (Typically, MAGI is the same as adjusted gross income.) It's equal to

3.8% of the lesser of your NII or the excess of your MAGI over the income threshold.

If you materially participate in a pass-through business, you'll avoid the NIIT. But keep in mind that material participants are generally subject to self-employment taxes on their shares of partnership or LLC income or to payroll taxes on their salaries from S corporations. C corporation shareholders, on the other hand, are subject to the NIIT on dividends, regardless of their level of participation in the business.

2. Profit distribution. If your construction company distributes its profits to the owners, a pass-through structure may be preferable. This is because C corporation distributions are exposed to double taxation: once at the corporate level at the 21% rate and again at the shareholder level at rates up to 23.8% (the 20% qualified dividend rate for high-income earners plus the 3.8% NIIT). Double taxation results in effective federal tax rates as high as 40%.

If your company reinvests its profits into growing the business, however, double taxation may not be an issue (at least until the company is sold). But watch out for the accumulated earnings tax, which applies to retained earnings that the IRS deems to be excessive.

Anything else?

Even if a C corporation retains its earnings, doing so merely defers double taxation. If you sell the business, the proceeds will be taxed at the corporate level and again when distributed to shareholders. So, if you're contemplating a sale, a pass-through structure may be preferable. Also consider how state taxes (individual and corporate) may affect your overall effective tax rate.

Who can help?

A change in business structure is a major decision. Work closely with your CPA to determine whether it's the right move for your construction company.

Building the framework of your succession plan

At some point, we all must hang up our hard hats. But what will happen to your construction company when you retire? Or when you simply can't work for an extended period, because of illness or injury? Having a succession plan in place is key to ensuring the business will go on.

Even if you're not close to retirement, it's a good idea to start planning early. Well-executed succession plans often take years to implement.

First steps

One of the best ways to begin building the framework of your succession plan is to determine "what you've got." You know you own a construction business, but how much is it worth and what are its primary value drivers? To determine these things, engage a qualified valuation expert familiar with the construction industry.

In addition, clearly outline your goals for retirement. That is, do you intend to retire outright or gradually retire by, say, moving to a part-time

schedule? Some business owners step down but keep a seat on the board of directors.

Be sure to include all stakeholders. Discuss your succession plan with family members and, if appropriate, key customers or business associates. Give them an opportunity to provide input and listen carefully to what they say.

You'll also need to choose the best method to transfer ownership of the company, whether through a sale, stock gift, buy-sell agreement, trust or other option. It's also wise to address retirement and estate planning — how will your succession plan help fund your retirement and provide for your family and/or heirs?

Business plan

Another important step is revising your business plan to incorporate an eventual ownership succession. A business plan is essentially a baseline for monitoring progress and keeping the company on track. The targets laid out in the plan become performance goals, and regular reviews of the plan help determine whether those goals are being met.

The plan should also define the responsibilities of each manager and executive. Your construction company's succession depends on the management team's ability to understand and carry out the financial and marketing objectives of the business plan.

This includes setting up a program to identify potential successors who are able and willing to take over — whether they be family members, employees or third parties — and to develop their abilities and transfer knowledge to them. Training can include industry certification courses, leadership workshops and business management classes, as well as day-to-day mentoring and job shadowing.

Good advisors

A solid succession plan will require the input of outside advisors. Your advisory team should include a CPA, attorney and qualified valuation expert. Many contractors also meet with business consultants or brokers, insurance experts, and estate planning advisors as well.

Discuss your succession plan with family members and, if appropriate, key customers or business associates.

These experts can help you fine-tune the many minute details of your succession plan. When the time comes for you to step down, they can guide you through the execution process to minimize the financial risks and tax consequences of, say, activating a buy-sell agreement.

Very important project

Even the most skillfully constructed building requires regular maintenance and, perhaps, an eventual rehab to preserve it for future generations. So it goes with your construction company. As mentioned, the earlier you embark on your succession planning, the easier time you'll have completing this very important project.

Is it finally time to buy a drone?

I'm not looking for new ways to spend my construction company's money, but the idea of buying a drone intrigues me. We do a lot of roofing and exterior work, and the aerial perspective would seem helpful. But I need to know that I'm going to get a good return on investment. How can I be sure it's finally time to buy a drone?

Ever since the Federal Aviation Administration (FAA) began issuing exemptions to its ban on commercial drones — and then lifted restrictions on who can operate them in 2016 — they've been taking the construction industry by storm. This game-changing technology can allow you to remotely monitor and map project sites, take high-resolution photos and video, collect information at survey-level accuracy, and send that data to project teams and stakeholders in near real time.

Questions to ask

Whether buying a drone is the right move for your construction business will entail some research. Here are a few key questions to consider:

Could our projects benefit from aerial photography/videos? It certainly sounds like yours would. Drones can easily reach areas that are difficult or dangerous to access by humans, such as the roofs and exteriors you mention. And they can cut survey and mapping times drastically. Plus, when a job is particularly well done, you might use some of the drone footage for marketing purposes.

Could our jobsite reporting use an upgrade? If you're struggling to keep track of multiple projects simultaneously, a drone can give you a bird's eye view of one site while you visit another. You can also send video clips to owners to inform them about progress or to document a potential change order.

How are we collecting data for virtual design and construction? If your company is dealing more and more with building information management systems or other advanced technology, a drone could take you to the next level. Drone sensor data can be converted into 3-D structural models, topographical maps, and volumetric measurements of materials such as sand and gravel.

Can we afford the training? The FAA mandates, among other requirements, that drone operators hold a remote pilot airman certificate or be directly supervised by a certified individual. To obtain a certificate, pilots must pass an aeronautical knowledge test.

Sky's the limit

Depending on the features, off-the-shelf commercial drones (technically called "unmanned aerial vehicles") can run anywhere from less than $100 to well over $1,000. You'll also need to consider insurance costs and, perhaps most important, whether you'll use the drone often enough to justify its costs. If the price is right, the sky's the limit on how useful this technology could be.

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Contractors: Are You Ready to Implement the New Lease Standard?

In early 2016, the Financial Accounting Standards Board (FASB), the body that sets accounting principles for U.S. entities, released a new accounting standard on how businesses should account for their leases. Accounting Standards Update 2016-02, *Leases* (Topic 842), is effective for public entities for fiscal years beginning after December 15, 2018, and non-public entities must be ready to implement it for fiscal years beginning after December 15, 2019. As you begin reporting under these new standards, there are a few key things you need to remember.

The treatment of capital leases (renamed "finance leases") has generally stayed the same as prior guidance under Generally Accepted Accounting Principles (GAAP). These leases are recorded on the balance sheet as an asset and as an offsetting liability for the value of the remaining lease payments. Under prior guidance, an operating lease was recorded on the income statement as "lease expense" and left off the balance sheet all together. However, under the new accounting standard, operating leases will be recorded on the balance sheet as (1) a "right of use" asset to represent the company's right to use the asset for the lease term, and (2) an accompanying liability for the present value of the remaining lease payments. The only leases that can remain off the balance sheet all together are leases less than 12 months in duration and there cannot be an implied obligation or expectation to renew the lease at the end of the period.

As you begin to implement these new rules, you may find that you need new or different software to help you. Not only will you need to calculate the value of your lease payments, but you will also need to collect information that you can use to fulfill the quantitative and qualitative disclosure requirements of Topic 842. Therefore, choose a software that will support your internal controls, work with your volume of leases, have adequate reporting functions, and keep a depreciation schedule for both federal and state purposes.

As contractors, your bankers or bonding agents expect you to maintain certain financial ratios. Since your balance sheet will look different going forward, the new lease standard may put you at risk of not satisfying certain financial covenants or not meeting required financial ratios. Return on assets (ROA), for example, shows the percentage of profit you earn ("net income") in relation to your resources ("total assets"). When your assets increase as a result of this new lease standard, your ROA ratio will decrease. If your bank requires a certain ROA to continue financing your projects, you may need to modify covenants in your existing debt agreement or find a new bank.

Quite often, contractors lease high-value equipment to use on their projects, so this accounting standard change is likely to affect contractors more acutely than other entities. It is important to understand the impact of this new guidance on your financial statements and have a good team assisting you in the implementation process. Contact a member of the LaPorte Construction Industry Group if you need help implementing this new standard.