Year-end tax planning
Depreciation deductions remain viable

Enhancing preconstruction to protect workers and the bottom line

Now’s a good time to re-evaluate employee benefits

4 ways construction teams can work more remotely

New Orleans | Houston | Baton Rouge | Covington | Houma
Check out our Construction Industry Group page and construction blog.
laporte.com/industry/construction
Like so many aspects of 2020, year-end tax planning will likely be different this year. Construction company owners should, first and foremost, review the provisions of tax-related legislation such as the Coronavirus Aid, Relief, and Economic Security (CARES) Act and determine how it affects their tax liability.

But some tried-and-true strategies remain viable, including Section 179 expensing and “bonus” depreciation. Both tax breaks are tied to the purchase of fixed assets such as equipment, vehicles and certain building components and improvements.

**Section 179**

Under Sec. 179 of the Internal Revenue Code, you can “expense” the full cost of a qualifying fixed asset to reduce your taxable income. This means you can deduct the purchase amount immediately rather than having to depreciate the asset over many years.

Both new and used fixed assets can qualify — though vehicles have complex limits based on their size, weight, capacity, style and use. The maximum overall deduction allowed in 2020 is $1.04 million, with a total equipment purchase limit of $2.59 million.

The good news is that you can carry forward unused deductions to future tax years. However, if you sell the property before you use up all the carryforward deductions, you must add them back to the asset’s basis. This can create adverse tax consequences if not thought out carefully.

Assets that are built-in equipment in buildings can also be expensed under Sec. 179; this is called tangible personal property. Qualified improvement property (QIP) can be expensed this way, too. These are improvements to a commercial space that aren’t related to a building’s enlargement, an elevator or escalator, or internal structural framework. Roofs, HVAC equipment, fire protection systems and security installations can all be Sec. 179 expensed.

**Bonus depreciation**

Purchased assets with a depreciable life of 20 years or less can be 100% expensed using bonus depreciation as long as you don’t expense them under Sec. 179. Before the Tax Cuts and Jobs Act (TCJA), bonus depreciation could be applied only to new assets, but most used property now qualifies as well.

If you’d prefer to keep an asset’s basis on your balance sheet, you must opt out of bonus depreciation. This election cannot be revoked without IRS permission.

As you may have read earlier in the year, the CARES Act eliminated the “retail glitch” in the tax law that previously excluded QIP from bonus depreciation. Most businesses can now claim 100% bonus depreciation for QIP, assuming all applicable rules are followed. What’s more, the
correction is retroactive to any QIP placed in service after December 31, 2017.

**Cost segregation**

If a major asset purchase isn’t in the cards for your construction company, and your business owns a building, you might want to instead consider a cost segregation study.

Under this process, accounting and engineering techniques are used to identify building costs that are allocable to tangible personal property rather than real property. As mentioned, tangible personal property can be expensed under Sec. 179, and you can claim these deductions over much quicker time frames than real property, which is typically depreciated over 39 years.

In addition, the TCJA’s significant improvements to the depreciation rules have made cost segregation studies even more attractive to building owners. (Note: If your company doesn’t own real property, you may want to suggest a cost segregation study to certain clients. Contractors often serve as consultants on these projects, which could mean additional revenue for you.)

Engaging an engineer and CPA for the purpose of cost segregation will entail some costs, but they’ll be tax-deductible. In your cost-benefit analysis, decide whether such an outlay this year would produce enough of a reduction in your construction company’s taxable income for the next several years to be worthwhile.

Take a building that you bought recently. You’ve likely been looking at depreciating 100% of its total cost over 39 years. But following a cost segregation study, you might be able to lower that percentage to 70%, while expensing the other 30% over shorter depreciation periods. Some building components may be 100% expensed immediately if they’re eligible for bonus depreciation. This could mean thousands of dollars more in tax deductions this year and over the next several years.

Discuss a cost segregation study with your business partners (if any), top managers and advisors. Some pertinent factors to consider:

- When (or if) you plan to sell the building,
- Whether you intend to renovate it,
- If it will be owner-occupied or leased, and
- Whether you might want to someday let go of it in a like-kind exchange.

If you didn’t acquire your building recently, a cost segregation study’s benefits will be less significant because most of the structure’s depreciable components will have already been expensed and its basis adjusted downward.

**Valuable avenues**

Depreciation tax breaks remain valuable avenues to tax savings, assuming you qualify and properly follow the required steps to claiming them. As always, turn to your CPA for guidance and expertise.

---

**SEPARATE CASH MANAGEMENT FROM TAX PLANNING**

It may seem obvious that more tax deductions lead to lower taxable income, so you pay less in taxes. That’s why Section 179 expensing and bonus depreciation have long been useful to construction companies, which tend to regularly need to buy new equipment and vehicles.

A forward-looking contractor will spend money on deductible expenses that improve business capacity or effectiveness while reducing taxable income in the current period so future revenues will be higher.

A word of caution, however: Be sure to manage cash flow independently of tax deductions. There will always be a time lag between cash spending and tax benefits. Don’t neglect receivables and backlog, which can lead to cash shortages very quickly if these aspects of your business falter.
ENHANCING PRECONSTRUCTION TO PROTECT WORKERS AND THE BOTTOM LINE

The COVID-19 pandemic and resulting economic slowdown have made careful planning of every job essential. More stringent safety protocols, including safe distancing where feasible, now should be considered when mapping out a project. And because so many jobs have been delayed or canceled, those that do move forward often represent a bigger piece of a construction company’s annual revenue. Let’s review some key aspects of preconstruction.

Budgetary concerns
At the start, try to approach the project from the owner’s viewpoint. This may seem counterintuitive, but you need to fully understand the owner’s goals and budget expectations before you can decide how realistic either one is.

As you’re no doubt aware, a project’s budget may expand or narrow over time. A big part of preconstruction is looking for ways to fit the budget into a flexible dollar range. Start with the contract: its type and specific language will determine whether and how you’ll be compensated for changes in work scope.

If possible, establish a contingency fund and set up sufficient cash flows to help ensure project continuity should the owner fail to remit timely payments. Doing so may not be easily achieved in a down economy, but it’s still a good idea to have a plan if the job goes sideways.

Assumption checks
This aspect of preconstruction is critical and very much related to the budget. When everyone on the project team understands what work is to be done, it’s much easier to calculate the budget required. Subcontractor bids are more likely to reflect their actual costs, with less need for add-on charges later.

As you know, this is easier said than done. One way to refine preconstruction is to do an “assumption check.” Are you or the owner assuming things which the other is unaware of or seeing from a different perspective? If you suspect this is the case, communication is key. An extra preconstruction meeting or phone call can eliminate misunderstandings and prevent them from growing into conflicts.

Team building
Pulling together a team that can work together smoothly is another key component of the preconstruction process. Sometimes, in the rush to get a
job started, the importance of collaborative culture is overlooked.

As you get acquainted with the project requirements and everyone involved, look to assign compatible members of your own staff to work with the other parties. You should also pinpoint subcontractors and consultants with appropriate work styles.

Focus on value

In a construction context, every job can benefit from a systematized approach to identifying and providing each project element at its lowest possible cost — also known as value engineering. By formalizing and refining your company’s approach, you can elevate the effectiveness of preconstruction.

For example, preconstruction is the optimal time to consider alternative and less expensive materials choices and delivery methods. This is particularly important when materials costs may be in flux because of tariffs or other global economic changes. Just be sure to check the contract language to determine whether these choices are acceptable.

Scheduling and safety

As you know, many factors can affect a construction schedule. Your preconstruction planning should consider the critical path and obstacles that may occur — including holidays, bad weather, materials delivery lead times and equipment availability. You might also want to discuss the possibility of job shutdowns because of a spike in COVID-19 cases in your area.

Last, but in no way least, talk about safety measures and how these might affect the schedule. If workers are going to be more distanced throughout a jobsite, this could slow down execution of certain tasks. On the other hand, some processes — such as materials deliveries — may speed up if a “contact-free” approach is followed.

New environment

As construction companies move forward in a new environment of safety concerns and a changed economy, preconstruction is one of the keys to managing risk and maintaining profitability. Work closely with your team and CPA to stay up to date on the latest approaches.

NOW’S A GOOD TIME TO RE-EVALUATE EMPLOYEE BENEFITS

In difficult economic times, cost-cutting becomes a necessity — and employee benefits are an easy target. Yet one of the lessons of the COVID-19 pandemic has been the value and importance of benefits. Here are some relatively low-cost options that can keep your offerings competitive for the company and practical for employees.

Expanded health benefits

Many types of employers now offer Health Savings Accounts (HSAs) in conjunction with a high-deductible health plan, as well as Flexible Spending Accounts (FSAs). HSAs and FSAs provide tax deferrals or tax deductions with the money contributed to those accounts for health care expenses. Plus, the Coronavirus Aid, Relief, and Economic Security (CARES) Act has permanently reinstated over-the-counter products as eligible expenses for these accounts.
Through 2021, the CARES Act also allows high-deductible health plans with an HSA to cover telehealth and remote-care expenses — even if participants didn’t reach their deductibles. Telehealth has gained traction with insurers as more medical practitioners have implemented it to remotely evaluate patients during the pandemic.

**Employee assistance plans**

Continuing uncertainties caused by the pandemic have increased stress and anxiety in employees, affecting health and job performance. An employee assistance plan (EAP) helps employees and their dependent family members connect with professional counselors to deal with issues affecting mental health and emotional well-being.

The annual cost of an EAP for employers tends to range from about $15 to $50 per employee, according to the Employee Assistance Trade Association. The return on investment — reflected in reduced medical, disability and workers’ compensation costs as well as higher levels of productivity — equates to $3 or more for every dollar invested in EAP services, says the organization. EAP services are generally free to employees, though workers who decide to continue certain treatments long-term (such as therapy) may incur costs.

**Retirement accounts**

Contractors don’t always offer retirement plans to every worker, but it’s worth exploring all the options. For example, smaller construction businesses should consider a Simplified Employee Pension IRA (SEP-IRA) to set aside retirement dollars for the owner and employees.

The accounts allow you to make larger contributions in profitable years and reduce the contribution rate — down to zero, if necessary — during tough times. A SEP-IRA can also shrink the company’s tax bill because contributions are generally 100% tax deductible up to certain limits.

**PTO alternatives**

Traditionally, paid time off (PTO) is divided into vacation days, sick time and jury duty. But there are alternative approaches to this fringe benefit that may improve employee morale and productivity.

For instance, “unlimited” PTO pools vacation, sick and personal time under one category. Doing so can save administrative time by reducing the number of pay codes that need to be processed. Also, there’s no year-end rush to use up vacation days and no need to reimburse departing employees for banked hours.

Another idea is to set up a PTO bank where employees can donate some of their PTO for co-workers to use. Employees who have exhausted their PTO can apply to the bank to obtain more.

**Opposite approach**

If project slowdowns or cancellations have hurt your construction company this year, cutting benefits may be among your only options for lowering expenses. But, if feasible, you may want to take the opposite approach.

---

4 WAYS CONSTRUCTION TEAMS CAN WORK MORE REMOTELY

Contractors can’t work from home, but they can benefit from technology that supports remote collaboration and safer distancing to address COVID-19 and other threats.

For example, in recent months, government agencies across the country have launched virtual video inspection programs to minimize stalls in building inspection and permitting processes. In the concrete sector, some ready-mix producers have introduced touchless e-ticketing, thereby
eliminating close contact between drivers delivering concrete and the contractors receiving it.

Here’s a look at four technology solutions that can help your team members stay more separated but still connected:

1. **Videoconferencing.** Applications such as Zoom and Skype have become popular tools for “face-to-face” virtual communication during the pandemic. Many companies, construction included, have gone a step further and implemented more broad-based business-oriented team collaboration platforms, including Slack and Microsoft Teams. These platforms bypass lengthy email chains and create a digital workspace to communicate and share files.

2. **The cloud.** It’s been around for a while but storing and sharing documents online — popularly known as “the cloud” — has been particularly useful of late. Data storage services, such as Dropbox and Google Drive, give project team members immediate and anywhere access to documents such as bids, contracts, specifications, drawings and plans.

   Meanwhile, cloud-based project management solutions and mobile apps allow project managers to assign and monitor work without having to meet in person with workers. Team members can also share critical job information in real time. For example, users equipped with mobile devices can submit and respond to requests for information, review product specifications and current drawing sets, and share punch list items with up-to-the-minute open or closed statuses.

3. **Wearable technology.** Cameras or sensors attached to hard hats, vests, belts, lanyards and even work boots can help increase safety while keeping team members virtually connected. Wearable tech can use global positioning systems and timestamps to track worker movements and equipment usage.

   It can also enable geofencing, which sets up virtual borders and sends out alerts when workers enter restricted or unsafe zones. Recently, wearable tech has been used to detect close interactions and warn workers when they’re getting too close to each other.

4. **Construction cameras/drones.** The right jobsite cameras can provide virtual walkthroughs and monitoring, lessening the need for actual site visits and close contact. These include 360-degree webcams, as well as cameras feeding data to building information modeling software.

   And, of course, there are the drones. Cameras mounted on these high-flying devices can enable remote inspection from remarkable angles and altitudes. Contractors are even pairing drones with artificial intelligence software that uses image recognition and classification algorithms to flag safety hazards and unsafe behavior.
COVID-19 Impact on Asset Impairment

The coronavirus pandemic infused unprecedented levels of uncertainty into our economy. When the virus became more widely spread in March, businesses closed, workers self-isolated, and customers abstained from the marketplace. Even today, operations are not back to normal, and many businesses are still struggling. These changes are going to affect each organization differently and these external events and pressures can put an organization’s financial performance at risk.

Management is required to evaluate their long-lived assets, intangibles, and goodwill for impairment when triggering events are identified, but at least annually. Using judgment to determine the existence of one or more triggering events and weighing any mitigating factors may lead a business to evaluate their assets for impairment. Some of the common indicators of triggering events are:

- Shifts in market forecasts
- Fluctuations in materials or labor costs
- Supply chain shortages
- Increases in costs of borrowing
- Changes in availability of financing
- Company is experiencing or expecting future net losses in operations
- Shifts in stock prices
- Changes in management or losses of key employees

The downturn in economic conditions caused by the coronavirus pandemic may or may not be considered a triggering event for your business. The criteria for a triggering event is met when it is more likely than not that your asset or reporting unit’s recoverable amount (or fair value) is less than its book (or carrying) value. Even if you determine that no triggering event occurred, it’s important to document the factors considered that led to your conclusion.

Businesses should record an impairment loss if the carrying amount of their asset or reporting unit exceeds its recoverable amount. For most assets, carrying costs are calculated as the acquisition cost less accumulated depreciation or amortization. However, the recoverable amount is often based on inputs that require significant knowledge and judgment exercised by management. Three acceptable asset valuation methods are the market, cost and income approaches. Each of these methods includes a different calculation and management will need to determine the best approach to be used.

With these two values (carrying and recoverable amounts) at hand, you can perform the calculations to see if there has been impairment, in the following order: Test all regular assets first (such as receivables, debt and equity securities, other investments, and inventories), then test indefinite-lived intangible assets (like trademarks and brand names), then long-lived assets (like property and equipment), and finally goodwill.

Impairment adjustments are recorded as an impairment charge (loss) on the income statement, offset with a reduction to the asset or with a credit to a contra-asset account. In addition, you are required to disclose information in the footnotes to the financials about how the impairment charge was determined, information about the triggering events, and the methods you used to calculate the impairment.

Impairment testing is a particularly difficult task right now. Triggering events related to the pandemic likely occurred over a series of weeks or months. If you determined that your assets have been impaired, should you report those losses in the first, second, or third quarter of 2020? And if the triggering event hit in the first quarter, should you report a subsequent event on your 2019 financials? For help in addressing these questions for your business, contact a member of LaPorte’s Construction Industry Group.