CONTRACTOR

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Depreciation breaks offer tax savings for contractors

Year end is nearly upon us again. The good news is that contractors can celebrate the arrival of 2014 with new equipment or software — and favorable tax treatment. The American Taxpayer Relief Act, which averted the "fiscal cliff" earlier this year, temporarily extended the currently more beneficial versions of 50% bonus depreciation and Section 179 expensing.

Appreciating depreciation

Replacing worn or outdated equipment is a fact of life for contractors. It may seem as though the list of what you have to buy to remain competitive only gets longer every year — and the items more expensive.

> Sec. 179 expensing allows business owners to deduct on their tax returns 100% of the costs, up to $500,000, associated with buying a wide variety of new and used equipment.

Accelerated depreciation can help reduce the near-term sting of making these important equipment investments. Typically, business owners in the United States may gradually depreciate, or write off, the cost of purchasing equipment on their taxes. Depreciation is recouped over the life of the equipment, which means it can take years for the full savings to be realized.

Getting a bonus

In an effort to spur economic growth through capital investments, lawmakers earlier this year extended a temporary bonus depreciation period that allows business owners to write off 50% of the entire price tag for buying "qualified property" between Jan. 1 and Dec. 31, 2013. Congress placed no monetary limit on the amount of equipment businesses may purchase, but the equipment must be new and operational by the end of 2013.

For example, a midsize commercial plumbing company buys $100,000 worth of diagnostic and installation assets in July 2013. Typically, the contractor would depreciate the value of such an investment on his tax returns over five years. Using 50% bonus depreciation, the plumber can write off $50,000 of the purchase this year and depreciate the remaining $50,000 over the next five years — as long as the assets are bought and deployed before Jan. 1, 2014.

Spending, then expensing

In addition to extending the 50% depreciation provision, Congress also extended and *expanded* Sec. 179 expensing. This tax break can be particularly helpful to small and midsize construction companies.

Sec. 179 expensing allows business owners to deduct on their tax returns 100% of the costs, up to $500,000, associated with buying a wide variety of new and used equipment. Items covered include equipment for transportation, telecommunications, storage facilities and computer software. There are also specific provisions designed to help certain real property owners lower their tax burdens through various eligible improvements. (Note: The Sec. 179

deduction is allowed only to the extent of an entity's taxable income.)

After Jan. 1, 2014, the maximum amount business owners can expense under Sec. 179 is scheduled to drop to just $25,000. In the meantime, you can still enjoy the impact of the higher Sec. 179 expensing amount on your cash flow.

For instance, say an electrical contractor buys $600,000 worth of equipment before year end. She can then expense $500,000 of those purchases on her company's 2013 tax return.

Taking them together

But there's more. Taken together, the 50% depreciation and Sec. 179 expensing provisions in effect until the end of the year can create even bigger tax savings for your construction company.

Let's go back to the electrical contractor in the preceding section. While $500,000 of her $600,000 in vehicle purchases qualifies for Sec. 179 expensing, the remaining $100,000 in outlays qualifies for 50% bonus depreciation. And she can write off the remaining $50,000 on the standard five-year depreciation for vehicles, which provides a $10,000 deduction this year. Thus, at the end of the day, she bought $600,000 worth of vehicles and is able to write off $560,000 of the total amount on her 2013 tax return.

Checking in

Whether used separately or together, 50% bonus depreciation and Sec. 179 expensing can generate substantial tax savings. But, as mentioned, these breaks are scheduled to expire in their current forms on Dec. 31.

Check with your tax advisor about whether you could put either or both to work for your construction company. Also ask about your state's treatment of 50% bonus depreciation and Sec. 179 expensing — some states have decoupled from federal provisions. ■

Turn your idle assets into gold

Business strategies change. Once-new equipment quickly becomes obsolete and, before you know it, you have a warehouse full of tools and machines that you rarely use.

Now's the time for that unused or underused equipment to start earning its keep. In these tough economic times, every little bit counts. From a seldom used lathing machine to "gently used" fleet vehicles, these assets can generate more cash flow and potentially lower your tax bill. How? In a word, rentals.

For example, a commercial excavation company owns 10 backhoes. The owner estimates that two of these backhoes aren't used regularly but still require significant maintenance and upkeep. Instead of selling the equipment, he rents them out to other construction contractors, creating not only additional cash flow, but also an opportunity to retrieve some of the operating costs through tax deductions.

If equipment is unused or underused, another option business owners can consider is donating the equipment to charity, which can create a one-time write-off for the market value of the equipment. Check with your financial advisor to see whether your aging assets could still hold value as rentals or charitable donations.

4 types of construction apps for mobile devices

Tablet and smart phone apps aren't kidding around anymore. Once merely the means of passing the time with an amusing game or keeping up with your messages, they can now legitimately serve construction companies in many ways. Here are four types of mobile apps to consider for your mobile devices.

1. Project management

Looking for a bird's eye view of your construction business? By using "cloud computing," a term describing remote storage and access of all data and files, a number of mobile apps allow you to oversee every aspect of your projects from your phone or tablet.

Offerings such as BuilderTREND, Maxwell Systems' ProContractorMX®, and UDA Technologies' UDA ConstructionSuite™ give contractors mobile access to project management, scheduling, financial information, and important compliance and project documents. These all-encompassing software solutions frequently integrate with design, accounting and other popular software tools, providing a single point of entry to your operations.

Has your company gone green? Builders who specialize in Leadership in Energy and Environmental Design projects can make sure

their jobs comply with these standards by using apps by companies such as Greengrade and GreenWizard.

2. Bidding and estimating

Bidding can be a notoriously inefficient process for some sales staffs, as data entry and human error bog down the process and lower profit margins. That's why many contractors are turning to estimating and bidding apps to optimize their performance.

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Customized around your business lines, popular apps like Bid4Build and Maxwell Systems' Estimation allow you to tailor forecasts and proposals based on labor, materials and equipment costs for specific mechanical, electrical or plumbing jobs.

Other helpful apps can help you crunch numbers for bidding, estimating or other purposes. Toolmaker DeWALT offers a free construction calculation and reference app that includes a number of trade-specific add-ons. Other calculators such as Home Builder Pro Calcs, by Double Dog Studios, and My Measures & Dimensions, by SIS Software, offer routine construction-related formulas that can save you precious time on the job.

3. Accounting and bookkeeping

Wondering if a problem client paid an outstanding invoice, but you're not at your desk to check? Many accounting systems and standalone apps provide remote access to every aspect of your company's finances.

Companies such as Foundation Software, ComputerEase Construction Software, and C/F Data Systems all provide robust access to your company's accounting records using mobile and tablet-based apps. These tools can provide you with a snapshot of your profit margin or specific detail about labor and materials costs or scheduling.

4. Equipment management

Equipment makers such as John Deere and EarthCam offer their own apps for smart phones and tablets that allow you to keep track of maintenance, location, diagnostic and scheduling information.

These equipment management programs typically are offered as part of an equipment purchase, but can be customized around your business. If you didn't get an app with your last piece, ask your dealer about it or check into third-party offerings.

Download with care

Many smart phone and tablet apps aren't particularly expensive, but that doesn't mean you should download one without forethought. Be sure it's something you and your employees will get real value from if you're going to add it to your operations. ■

Take a tough stand

Common fraud schemes stay that way for a reason

In good times or bad, contractors are always vulnerable to internal fraud. Although there's no surefire protection against dishonest employees, establishing a hands-on management style that rewards honesty and takes a tough stand on thievery will go a long way toward protecting your assets.

Cut careful checks

Fraud affects construction companies in many ways. One of the most common methods is through check tampering.

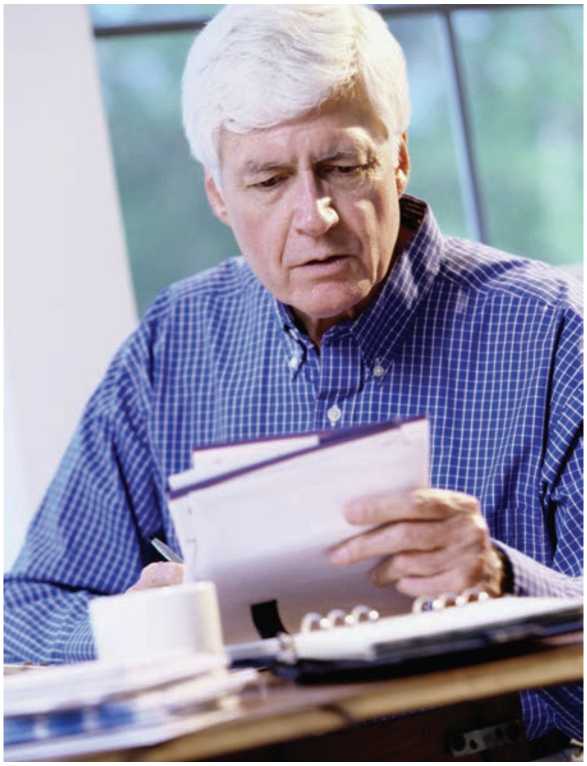
Here a thief forges, alters or steals a company-issued check. For instance, say you made out a check to the IRS. It's not difficult for a dishonest staff member to intercept the check and change the "IRS" to "MR." or "MRS." and then add his or her name. Fraudsters might also hand you a check made out to "Visa" — but it's not your account, it's theirs.

One good way to combat such fraud is to insist that an invoice or other supporting document be attached to every check. Furthermore, avoid signature stamps. Although convenient,

these devices are too tempting for a dishonest employee to resist.

Another type of check that invites fraud is a paycheck. Specific payroll scams to watch out for include fake (or "ghost") employees and false wages (hourly wages based on exaggerated or fabricated hours recorded on time cards).

To ensure you're compensating *only* your employees and *only* in the right amounts, review and personally hand out paychecks at least once a year. If you use direct deposit,



work with your bank to verify the recipients — most offer a variety of antifraud services.

Know your charges

Construction companies process a lot of invoices, leaving them vulnerable to accounts payable fraud. One common scheme is for a fraudster to set up a shell company that outwardly appears legitimate but, of course, doesn't provide any products or services. Another scheme is for a corrupt employee to work with an actual vendor's rep to inflate prices and then split the difference.

Again, you can fight back against these schemes by checking invoices attached to outgoing checks regularly. Also ask your CPA to review your vendor payouts. Are you paying costs well above local industry norms?

In addition, your CPA can help you run a vendor history showing invoice numbers. If every invoice you receive from a vendor is in perfect numerical order (3001, 3002, 3003, etc.), something might be up.

Work with your bank here as well. It can set up a list of approved vendors and stop checks going to any company that's not on the list. Also consider instructing your bank to stop payments going to individuals rather than businesses.

Anticipate and educate

Along with these specific ways to catch various fraud schemes — of which we've mentioned but a few — there's also one overall way to fight back: Establish a zero-tolerance policy toward fraud.

The policy should start with your hiring process. Perform criminal and credit background checks on anyone who will be handling the company's financial assets. (Consult your attorney to be sure you're within the law.) Additionally, look into bonding select employees who will be working in high-risk areas.

Next, develop solid internal controls. For example, segregate banking responsibilities from accounts receivable and accounts payable functions. It's harder for fraudsters to conceal their schemes if they can't cover their tracks in the bank reconciliation process.

Also, enforce mandatory vacations of at least two weeks per year. Many fraudsters don't like to take time off because doing so might expose their actions when someone else fills in. Also keep an eye out for any unusual changes in an employee's lifestyle, material possessions or behavior.

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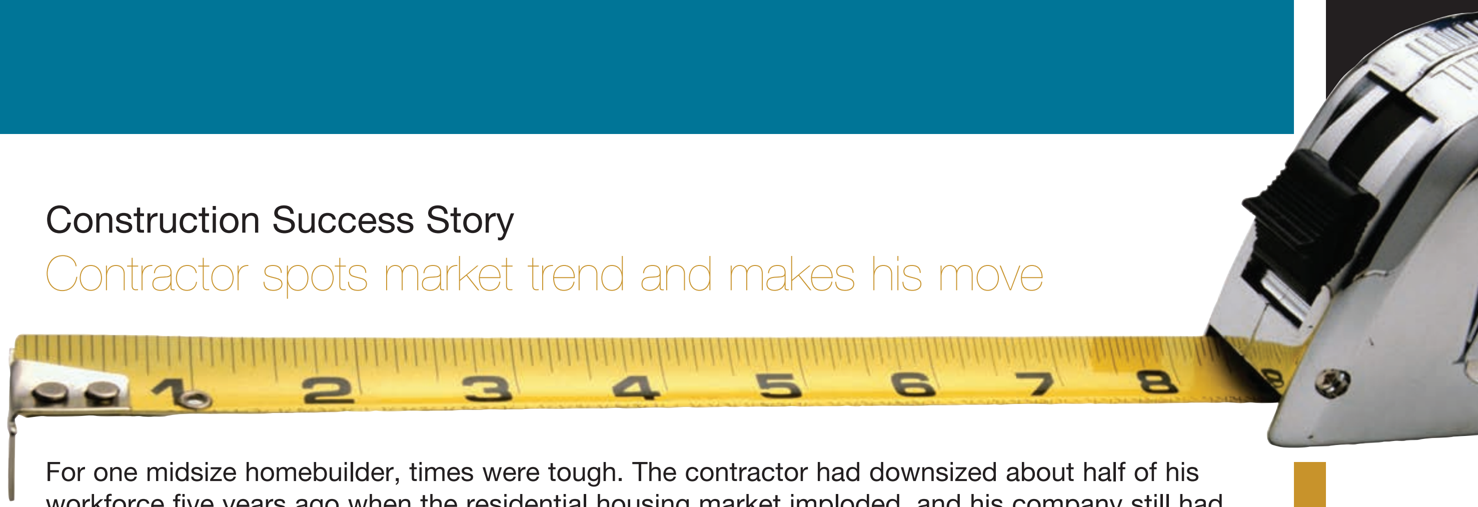
Last, educate your employees about fraud and its effect on the company. Mix a firm hand with a kind voice, explaining the consequences of fraud, as well as how losses hurt the company and how staff can help.

Take nothing for granted

The common fraud schemes we've mentioned here stay that way for a reason. Construction companies are vulnerable in these areas, and fraudsters will always try to exploit them. Don't take for granted that you can do nothing about it — you can. ■

Construction Success Story

Contractor spots market trend and makes his move



For one midsize homebuilder, times were tough. The contractor had downsized about half of his workforce five years ago when the residential housing market imploded, and his company still had yet to fully recover in terms of size or revenue. After months of soul-searching and meetings with his financial advisor, he decided to make a change in business strategy and take advantage of a growing market.

Opportunity identified

The seeds of the idea were planted during the run-up to the passage of the Patient Protection and Affordable Care Act. The contractor knew that, when the health care act was finally passed, it likely would mean an explosion in demand for health care facilities. His local market was especially ripe for development in this area.

The contractor decided this was a once-in-a-lifetime opportunity. But there was one problem: Health care construction requires specialized certification and training that he and his employees didn't have. Complicating matters, the tepid economy and a light backlog were limiting his funds.

Working with a financial advisor, however, the builder developed a plan that would allow his business to transition from residential development to health care construction. To do so, the financial advisor identified tax incentives for easing the cost of employee training. She also devised a plan for leveraging the contractor's personal property and investments to create additional cash flow. It was a risky move but, after deliberation and exhaustive market research, he decided to take the chance.

Fundamentals in place

The first few months were challenging. His construction company made a significant investment in a seasoned health care sales manager. Yet, after six months, he had yet to successfully bid on a health care facilities project. Once again, he reached out to the financial advisor. She encouraged him to stick with their original strategy. All the fundamentals were in place; success was just a matter of execution.

Days later, the builder heard back from a large national drugstore chain that was in the process of adding small health clinics to its stores. The initial contract was for five projects over the first year — with the possibility of ten more in the next three years. And, with that, his company was off and running.

Change successfully made

Moral of the story: Construction markets are always in flux to some extent. Certain sectors get hot while others cool down. By keeping an eye out for a warming trend, this contractor was able to successfully change the direction of his struggling company. His sharp turn won't work for everyone, but that doesn't mean you shouldn't keep your eye out for the chance. ■