Tax Update for Construction Contractors

December 14, 2023

Lisa Cattie, Director, Outsourced Accounting & Finance Services
Tiffany Eichhorn, Senior Accountant, Tax Strategies
Brad Runyen, Director, Tax Strategies

Kreischer Miller

Agenda

1. Kreischer Miller’s Outsourced Accounting & Finance Services
2. Key tax law changes that may impact your construction business
3. Expiring tax provisions for the upcoming years
4. Tips and considerations for year-end tax planning

Kreischer Miller's Outsourced Accounting & Finance Services

OUTSOURCED ACCOUNTING & FINANCE SERVICES

SAVE MONEY AND TIME

REDUCE RISK

INCREASE QUALITY

ENAHNCE AUTOMATION VIA TECHNOLOGY

IMPLEMENT BEST PRACTICES

Kreischer Miller

Client Testimonial

"Performing the accounting function exhausted a significant amount of my time and was **taking away from the time I had to run and grow our business**. Also, the complexities of payroll and taxes working across 20+ states required deeper expertise than we could have brought in without a sizable internal team. We chose to outsource our accounting function and have **saved significant blocks of time (that previously cost us money)** and have benefited from the depth of **expertise of multiple teams** at Kreischer Miller."

Mitigating Risk

Employee Availability

- Medical leave
- Unexpected turnover
- Lack of qualified candidates

Client Testimonial

“**Due to staff turnover**, I needed some urgent accounting services to keep my two businesses running. Kreischer Miller’s outsourced accounting services were a **‘white knight’ and plugged seamlessly into my business’s operations**, allowing me to focus on other important areas of growing the business. I highly recommend their outsourced accounting solutions.”

Mitigating Risk (cont.)

Misappropriation of Assets

- Small accounting departments
- Lack of segregation of duties

Timely and Accurate Financial Statements

- Manual processes
- Lagging financial statements

Client Testimonial

"We experienced **turnover in the accounting department** and were looking for a practical solution to meet our needs. The recommended technology platforms and OAS team at Kreischer Miller enabled us to **streamline many of our processes, reconcile accounts timely, and produce required financial reports**. We did not find it necessary to reinvest in an internally created accounting department."

Levels of Service

LEVEL OF SERVICE	**DATA** Facts and figures provided about business	**INSIGHTS** Analysis of business or industry data	**STRATEGY** Guidance and advice relating to specific issues or opportunities
	VALUE TO BUSINESS OWNER		
SERVICE OFFERINGS	• Reconciliation of balance sheet account balances • Financial reports • Variance analysis	• Executive Summary • Performance dashboards • Management conference call • Utilizing budgets	• Cash Forecasting • Issue Ranking Diagnostic • One Page Accountability Plan
CAPABILITIES & ROLES	BOOKKEEPER • Clerical • Process driven • Technology platforms	ACCOUNTANT • Inquisitive about business • Business acumen • Confident in conversation	ADVISOR • Problem solving skills • Facilitation skills • Guides a meeting
	CAPABILITY REQUIRED TO DELIVER		
RESOURCES	• Initial data assessment • QuickBooks online • Bill.com • Dext	• Reach Reporting • IBIS World industry report • Best practices	• Now-Where-How • Leadership team meetings • Decision metrics
	Technology | Resources | Research | Coaching | Outcomes		
	PERFORMANCE IMPACT		

Technology Applications

- **QuickBooks Online** | preeminent accounting platform used to capture transactions and provide standard financial reports
- **BILL**| automated platform for processing, approving, and paying vendor invoices with a few clicks rather than shuffling paper and cutting checks
- **Dext Prepare** | receipt capture software to harbor data required to support credit card purchases and employee expense reimbursement
- **Botkeeper** | human assisted AI for data entry
- **Karbon** | workflow software and communication tool
- **LastPass** | secure password management system
- **Reach Reporting** | enhanced financial reporting and dashboards

Value of Outsourcing Accounting

- Cost **savings** for accounting services
- Eliminate the time and cost of **managing** accounting needs
- Reduce the **risk** of turnover
- Consistent process and **oversight** of financial reports
- Leverage technology and **automate** manual tasks
- Consistency in best practices and operating **policies**
- **Timely** access to financial reports
- Free up your time from **administrative** tasks
- Access to trained **professionals** with clients in similar situations

Client Testimonial

"Outsourcing our accounting department has mitigated the **risk of employee turnover and provides us access to real-time financial data** required to run our business. The benefits of having a team of **well-trained professionals** that understand the recommended **technology** gives me great comfort and **peace of mind**."

Thought Leadership from the Outsourced Accounting & Finance Services Team

- [6 Reasons Business Owners Are Outsourcing Back-Office Accounting Functions]
- [What to Consider When Outsourcing Your Company's Accounting Function]
- [Comparing the Costs of an In-House Accounting Department vs. Outsourcing]
- [And More…]

Connect with Us

[Click here](#) to learn more about our Outsourced Accounting and Finance Services.

Lisa Cattie

DIRECTOR, OUTSOURCED ACCOUNTING & FINANCE SERVICES

lcattie@kmco.com

Tax Update for Construction Contractors

Polling Question

Disclaimer

This material is provided for general informational and educational purposes only and should not be construed as legal or tax advice. You should not rely on information contained in this presentation to make business or tax decisions without first consulting with your tax advisor. The information contained in this material is subject to change without notice. The presenters undertake no obligation to update this material.

Section 179D – Energy Efficient Commercial Buildings Deduction

- IRC 179D was enacted to encourage commercial building owners to install energy efficient property.
  - Installation of energy-efficient commercial building property occurs when constructing a new, or improving an existing, commercial building or government building.
- Prior to the IRA, Section 179D provided a permanent deduction of up to $1.80 per square foot for certain energy-saving commercial building property installed as part of:
  - The interior lighting system;
  - The heating, cooling, ventilation, or hot water system; or
  - The building envelope

Section 179D – Energy Efficient Commercial Buildings Deduction

- Post-IRA enhancements and expansions of Section 179D:
  - Deduction up to $5.00 per square foot
  - Removal of lifetime limitation. The 179D deduction can be taken every three tax years
  - Expansion to permit allocations to tax-exempt entities
  - Removal of the existing rules for partial certifications
  - Increased deductions for meeting prevailing wage and apprenticeship requirements

Section 163(j) Business Interest Limitations

- Section 163(j) limits amount of business interest expense that can be deducted
- Interest expense is limited to 30% of adjusted taxable income (ATI)
- Depreciation, amortization, and depletion is no longer allowed to be added back to adjusted taxable income
- Any disallowed business interest is carried forward and subject to Section 163(j) in the succeeding taxable year
- Exceptions:
    - Small businesses with average annual gross receipts of $29 million or less in previous 3 years
    - Certain real property businesses that made the election

Section 163(j) Example

163(J) Limitation Calculation:	Old Law	New Law
Taxable Income before 163(j) Limitation	$400,000	$400,000
Interest Expense	500,000	500,000
Depreciation Expense	600,000	-
Amortization Expense	50,000	-
Adjusted Taxable Income (ATI)	1,550,000	900,000
Interest Expense (30% Limit)	465,000	270,000
Interest Expense Carryover	35,000	230,000
Taxable Income after 163(j) Limit	$435,000	$630,000

Business Loss Limitations

- An excess business loss is the amount by which the total deductions attributable to all your trades or businesses exceed your total gross income and gains attributable to those trades or businesses
- Inflation Reduction Act (IRA) extended the limitation for an additional 2 years
  - Applies to tax years 2021 through 2028
- For taxable years beginning in 2023, the threshold amounts are $289,000 ($578,000 MFJ)
- Any disallowed business loss is treated as part of the taxpayer's Net Operating Loss (NOL) and carried over to the next tax year

Net Operating Loss (NOL)

- The Tax Cuts and Jobs Act (TCJA) modified the NOL rules
- NOL deduction is limited to 80% of taxable income in one tax year
- Carryforward indefinitely until the loss is fully recovered
- CARES Act allowed 5-year carryback in 2018, 2019, 2020
- Carrybacks no longer allowed in 2021 or later

Polling Question

Depreciation Update

De minimis Safe Harbor Election

- If your company has an applicable financial statement, deduct up to $5,000 per item
- If your company does not have an applicable financial statement, deduct up to $2,500 per item

Bonus Depreciation

- Starting in 2023, bonus depreciation will begin to phase out
- 80% in 2023; 60% in 2024; 40% in 2025; 20% in 2026; 0% in 2027
- Opportunity to create a business loss
- Qualified Improvement property

Section 179 Expense

- Immediate write-off
- Deduct up to $1.16 million of eligible property
- For tax year 2023, $2.89 million property phase-out
- Limited to annual taxable income of the entity

TCJA Tax Changes Sunset in 2025

Tax Provision	Current Law	Tax Years after December 31, 2025
Qualified Business Income (QBI) Deduction	Eligible taxpayers deduct up to 20% of qualified business income	20% QBI deduction eliminated
State and Local Income Tax (SALT) Deduction	Limited to $10,000	No limit to SALT itemized deduction
Limitation on Itemized Deductions	The Pease limitation suspended in December 2017 through 2025	Limitation is reinstated; cap on total allowable itemized deductions
Itemized Deduction for Miscellaneous Deductions	Not available under the TCJA	Available in excess of 2% of AGI, including tax preparation fees, investment expenses, unreimbursed employee business expenses

2023 Federal Income Tax Rates

Tax Rate	Married Filing Joint & Surviving Spouse	Single	Head of Household	Married Filing Separately
10%	$0 – $22,000	$0 – $11,000	$0 – $15,700	$0 – $11,000
12%	$22,001 – $89,450	$11,001 – $44,725	$15,701 – $59,850	$11,001 – $44,725
22%	$89,451 – $190,750	$44,726 – $95,375	$59,851 – $95,350	$44,726 – $95,375
24%	$190,751 – $364,200	$95,376 – $182,100	$95,351 – $182,100	$95,376 – $182,100
32%	$364,201 – $462,500	$182,101 – $231,250	$182,101 – $231,250	$182,101 – $231,250
35%	$462,501 – $693,750	$231,251 – $578,125	$231,251 – $578,100	$231,251 – $346,875
37%	Over $693,750	Over $578,125	Over $578,100	Over $346,875

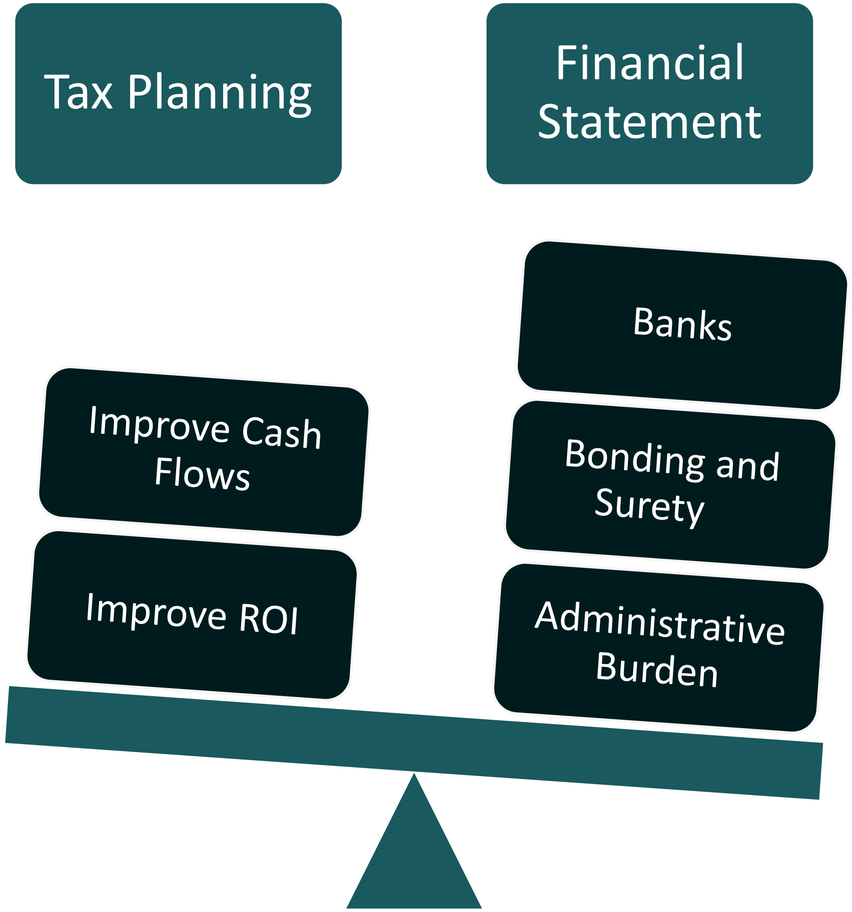
2024 Federal Income Tax Rates

Tax Rate	Married Filing Joint & Surviving Spouse	Single	Head of Household	Married Filing Separately
10%	$0 – $23,200	$0 – $11,600	$0 – $16,550	$0 – $11,600
12%	$23,201 — $94,300	$11,601 – $47,150	$16,551 – $63,100	$11,601 – $47,150
22%	$94,301 — $201,050	$47,151 – $100,525	$63,101 – $100,500	$47,151 – $100,525
24%	$201,051 — $383,900	$100,526 – $191,950	$100,501 – $191,950	$100,526– $191,950
32%	$383,901 — $487,450	$191,951 – $243,725	$191,951– $243,700	$191,951 – $243,725
35%	$487,450 - $731,200	$243,726 – $609,350	$243,700 – $609,350	$243,726 – $365,600
37%	Over $731,200	Over $609,350	Over $609,350	Over $365,600

Polling Question

Tax Planning Considerations

Tax Planning – Finding the Right Balance



Section 174 Guidance

- Tax Cuts and Jobs Act of 2017 (TCJA) changed treatment of Research and Experimental/Development expenditures from immediate expensing to amortize over 5 year/15 year period
  - Effective tax years beginning after December 31, 2021

- Notice 2023-63 – released September 2023
  - Notice indicates Treasury/IRS intention to issue proposed regulations further expanding on Section 174 application
  - Requested comment period through November 24, 2023
  - Comments will be incorporated into final Regulations to be issued, expected early 2024

Section 174 Guidance (cont.)

- Notice 2023-63 breaks down as follows:
  - Section 1: Overview of the Notice and guidance application
  - Section 2: Background of Section 174
  - Section 3: How to capitalize (timing of "midpoint" and short year application)
  - Section 4: Scope of Section 174 – definition of R&E expenditures
  - Section 5: Software Development expanded on
    - What is computer software, activities included, and what is NOT software dev.
  - Section 6: Contracted R&E – who is recipient, who has financial risk, who has Section 174 cost
  - Section 7: Disposition or abandonment of the R&E Property
  - Section 8: Long-Term contract treatment under Sect. 460
    - How should R&E be handled under PCM treatment
    - Is R&E a contract cost for % of completion
  - Section 9: Cost Sharing
  - Section 10: Applicability Dates
    - Intended to apply for tax years ending after September 8, 2023 (can follow)

Employee Retention Credit

- The Employee Retention Credit is a **fully refundable payroll tax** credit for employers equal to 50% **(2020)** or 70% **(2021)** of **qualified wages** (up to a $10,000 cap) that **Eligible Employers** pay their employees.
- Businesses qualify based on a decline in gross receipts or full/partial shutdown of their business.
- The credit is based on wages paid after March 12, 2020, and before September 30, 2021.
- The maximum credit amount with respect to **EACH EMPLOYEE** is $5,000 **per year** **(2020)** or $7,000 **per quarter** **(2021)**.
- Recent Updates:
  - IRS issued guidance for withdrawing fraudulent claims
  - IRS issuing guidance for returning fraudulent refunds already received
  - Suspension of ERC claim processing through end of 2023
    - Large volume of fraudulent claims by newly formed businesses, businesses with no employees, etc.

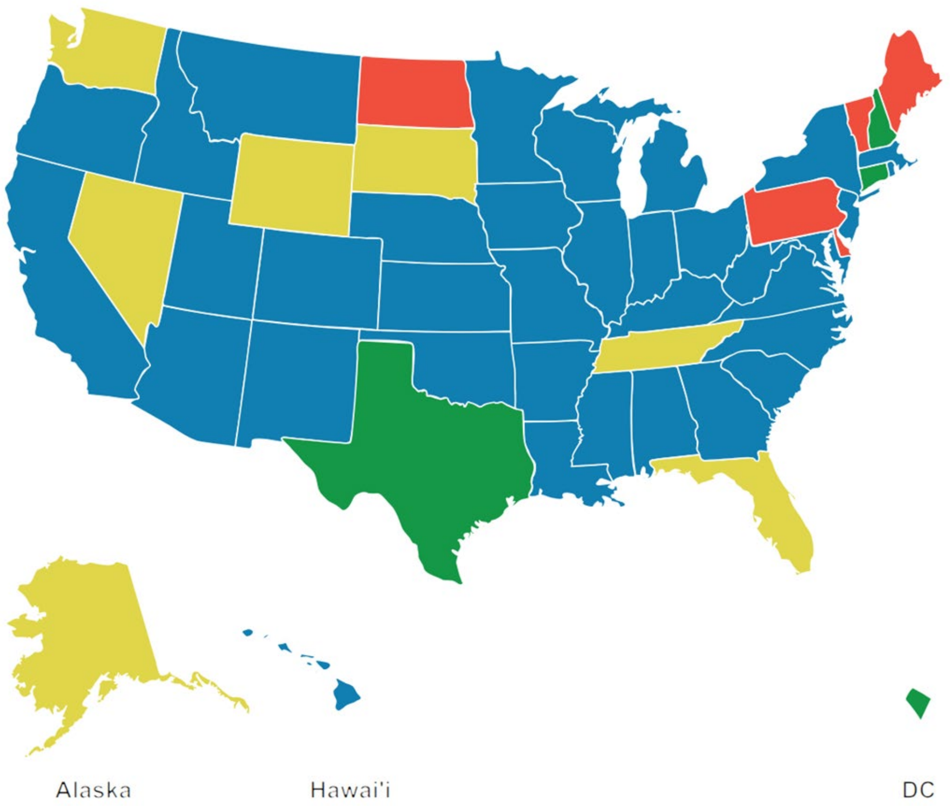
Work Opportunity Tax Credits (WOTC)

- Available through December 31, 2025
- In general, WOTC is 40% of the first-year wages of a targeted group of employees who worked 400 hours or more
    - For an employee who worked between 120 and 400 hours, credit is 25 percent of first-year wages paid
- The tax credit can range from $2,400 to $9,600 per employee depending on a worker's qualifications
- No limit applies to the number of individuals that can qualify
- Tax credit is reported on the company's federal income tax return and distributed through K-1's or claimed on corp return
- Strict compliance with reporting timeline is necessary

Work Opportunity Tax Credits (WOTC)

- Targeted Group Employees:
  - SNAP (food stamps) recipients,
  - Welfare recipients,
  - Designated community residents who are between the ages of 18 and 40 at their date of hire and reside within particular geographic areas,
  - Supplemental Security Income (SSI) or disability recipients,
  - Long-term unemployment recipients,
  - Veterans, which include a few sub-categories of qualified individuals,
  - Ex-felons,
  - Vocational rehabilitation referral employees, and
  - Summer youth employees who are between the ages of 16 and 18 at their hiring date and reside within particular geographic areas.

Pass-Through Entity Income Taxes



PTE Election allowed or elective

PTE Level Filing Mandatory

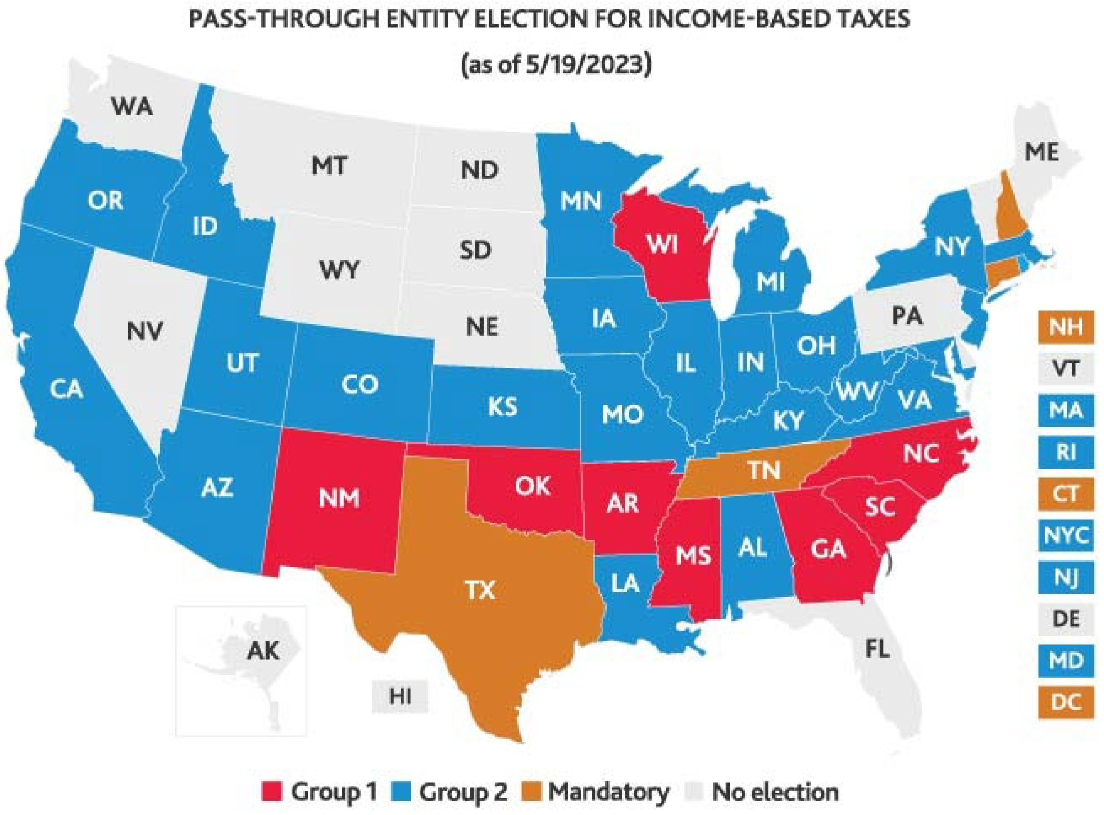
Does not impose individual income tax

PTE Election not allowed

Pass-Through Entity Taxes – Income Treatment

- States have generally approached the creation of PTE tax in one of two ways:
  - Group 1: Allows members of a PTE to reduce adjusted gross income by their pro rata or distributive shares of income
  - Group 2: Allows members to take a credit to offset their taxable income but still requires members to include their distributive shares of income in their returns
- Issues and Concerns with Elections
  - Timing and due dates of elections
  - Tax rates specific to PTE election vs individual filing
  - Ability to continue composite filings in non-resident Group 2 states
  - Documentation of resident state income tax credits

Pass-Through Entity Taxes – Income Treatment



Traditional Contractor Planning Ideas

Strategy	Benefit	Applicability
Cash Method Account for small contractor (AMT Consideration)	Ability to deferral significant income and reduce tax liability	Any contractors with average gross receipts of less then $29 million (3 year average)
10% election method	Defer the recognition of income if cost to complete is less than 10%	Applies to any contractor that is using PCM
1. Exclusion of Retainage Payable 2. Pay if Paid Deferral – Pay subcontractors when paid by Owner	Ability to lower the percentage to complete for tax reporting by excluding the retainage payable numerator in the cost to complete formula	Certain contractors that have specific language in their contract that fail the all-events test under IRC 61 and state law will enforce the Pay if Paid clause provision (Legal contract language required)

2023 Income and Deductions

Planning Considerations:

- Accelerate Income?
  - Increased effort on cash collection prior to year end (cash basis method Taxpayers)
  - Collect outstanding retainages when possible
  - Close out jobs (95% or more considered complete for tax purposes)
  - Incur job costs if possible to accelerate PCM income recognition
    - Caution on PCM estimating – increased interest costs under Look-Back
  - Selling assets – recognize gains (timing of LTCG rate increase)
- Defer Deductions?
  - Elect out of bonus depreciation – but keep in mind the phase-out under TCJA
  - Do not elect Section 179
  - Defer significant capital expenditure purchases to 2024
  - Harvest capital losses for carryover

Year-End – Considerations

- **Consider Adjusting your Wage Withholding/Estimates**
  - Withholding treated as paid evenly throughout the tax year
  - Adjust your tax withholding or estimated payments to cover estimated tax liability (based on prior year or current year)
- **2023 Underpayment Interest Rates (All except for Large Corporate)**
  - Currently 8% rate for Q4 2023
  - 7% rate for Q1 - Q3 2023
  - Estimated tax remittance (Individuals)
    - 90% of Current Year Projected Tax
    - 100/110% of Prior Year Tax Liability
- **2023 Underpayment Interest Rates (Large Corporate)**
  - 10% rate for Q4 2023
  - 9% rate for Q1 - Q3 2023

Year-End – Considerations

- **HSA Max Deferral**
  - 2023 HSA Max $3,850 single ($7,750 family)
  - 2024 HSA Max $4,150 single ($8,300 family)
  - HSA catch-up contributions $1,000 for age 55 or older
- **401(k) Plans**
  - $22,500/year
  - $30,000/year for age 50 or older with catch-up
  - Max eligible compensation base is $330,000

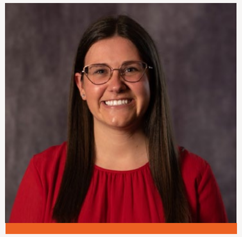
Polling Question

Contact the Presenters

Brad Runyen

DIRECTOR, TAX STRATEGIES

brunyen@kmco.com



Tiffany Eichhorn

SENIOR ACCOUNTANT, TAX STRATEGIES

teichhorn@kmco.com

Lisa Cattie

DIRECTOR, OUTSOURCED ACCOUNTING & FINANCE SERVICES

lcattie@kmco.com

About
Kreischer Miller

Kreischer Miller is an advisory, audit and accounting, and tax firm serving the Greater Philadelphia and Lehigh Valley areas. We take an advisory approach in everything we do, working diligently to understand what your business needs to move ahead and providing the tools and guidance to help you get there.

Learn more at **www.kmco.com**