

Profit Builder

Year end tax planning

Contractors should look to the big stuff

As the calendar winds down, contractors would be well advised to ramp up their tax preparation efforts. We're not referring to the brandishing of calculators or the filling out of forms. Rather, we mean the targeting of strategies your construction company could implement now to see lower tax bills or bigger refunds when you file your return next year.

Sec. 179: Substantial

If you're looking to deduct as many dollars as reasonably possible this year, you may want to first look to the big stuff, such as backhoes, tractor-trailers and bulldozers. That's because increased Section 179 expensing limits offer significant tax savings on *new and used* qualified asset purchases.

The Sec. 179 expensing deduction allows you to expense, rather than depreciate, a specified dollar amount of qualified asset acquisitions in a given year. The expensing limit currently is substantial — up to \$500,000 in eligible purchases made in the 2011 tax year. When your purchases exceed \$2 million, however, every dollar spent thereafter will reduce your deduction by a dollar.

For the 2012 tax year, the expensing limit is scheduled to decrease to \$125,000 while the purchase limit is scheduled to drop to \$500,000 (both amounts subject to inflation indexing).

Bonus depreciation: Maximized

If you anticipate buying *new* equipment (or computer software) this year, be sure to look into the bonus depreciation tax break. Like the Sec. 179 expensing deduction, bonus depreciation is at a notable high this year.

In fact, it can't get any higher: You can deduct 100% of the cost of qualifying assets acquired and placed in service this year (or by Dec. 31, 2012, for certain long-lived and transportation property). This percentage is



scheduled to, by and large, drop to 50% for the 2012 tax year, though an extension of 100% bonus depreciation has been proposed. Check with your tax advisor for the latest information.

As noted, bonus depreciation applies only to new assets — specifically, new tangible property with a recovery period of 20 years or less. Computer software, water utility property and qualified leasehold-improvement property may also be eligible for this tax break.

Carpe diem

An important caveat for both the Sec. 179 expensing deduction and bonus depreciation is that you should assess the state tax impact of an asset purchase before leaping into any transaction. You should also, of course, have a business need for any asset before buying it — don't do so only for a tax break.

That said, the temporarily high benefits of the Sec. 179 deduction and bonus depreciation make them prime "carpe diem" opportunities. So work with your tax advisor to determine whether you should seize the moment while you can.

Year end tax planning, continued on page 4

Profit Builder

The power of an SRM plan Cope with risks, seize opportunities

The term “risk management” has been well recognized in the business world for at least a couple of decades now. Just about every type of company needs to spend at least a little time thinking about what threatens them and how they might anticipate and cope with those threats.

Construction businesses are certainly no exception. In fact, if anything, contractors may be subject to *more* risks than a company safely ensconced in a brick-and-mortar facility. To cope with these many threats, as well as seize opportunities that may arise, a strategic risk management (SRM) plan is well worth pursuing.

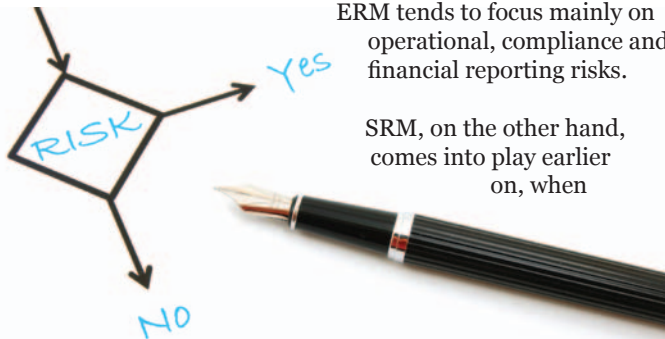
SRM vs. ERM

As its name indicates, SRM goes beyond simple, generalized risk management. It seeks to reduce the probability and scope of named threats as well as establish routes of financial recovery from any losses that do occur. On the more positive side of the ledger, an SRM plan looks to set up measures by which your construction company can identify opportunities for profit and growth and follow steps for acting on these chances as they arise.

If that definition sounds familiar, it may be because you’ve come across the term enterprise risk management (ERM). What’s the difference? Risk management experts tend to debate the matter but, generally,

ERM tends to focus mainly on operational, compliance and financial reporting risks.

SRM, on the other hand, comes into play earlier on, when



Now what do we do? Dealing with a stalled project

These days, many (if not most) contractors need every job they can get. Unfortunately, even when you get a project it can get stalled if the owner runs out of funds or just can’t make a critical decision.

In such circumstances, you might find yourself asking, “Now what do we do?” By way of a simple answer, you need to minimize your financial and legal liabilities as much as possible. Here are a few actions you can take to stay on top of the situation.

you’re plotting your business’s strategic direction. Also, as mentioned, it puts greater emphasis on weighing opportunities along with risks.

Applying both prongs

To create a solid SRM plan that will bring the most benefit to your construction company, you need to apply both prongs. That is, you must anticipate risks *and* opportunities in your strategic plan.

To do so, you’ll need the input of your advisors and managers as well as nonmanagement employees. A detailed examination of your construction company’s project history, accident logs, equipment records and insurance claims can be very helpful. You might even engage a consultant to help you predict where your local building market is headed.

For example, let’s say you identify your supply chain as a major risk. Price fluctuations have hurt you and shortages have left you high and dry, delaying your projects.

Your SRM plan can incorporate price trends exhibited by your suppliers to anticipate rises in price and, more important, take advantage of lower-cost periods when discounts are typically offered. You may also be able to identify ways to tighten up your supply chain process through better automation or elimination of waste.

From surviving to thriving

In recent years, strategic planning for many contractors has amounted to taking every job that comes up and hoping to maintain enough cash flow to make it through to the next quarter. But that doesn’t mean you should give up on this mission-critical activity. An SRM plan, integrated into your overall approach for moving your construction company forward, can help you do more than survive — it can help you thrive.

Stop, drop and read

Obviously, the first thing you should do after getting the news is to order your crew to stop working immediately. The only exception to this commonsense measure is if, by ceasing activity, you’d be leaving the job site in an unstable or dangerous condition. In such cases, for liability purposes, you may be better off finishing off a given phase (or task) to ensure that a collapse or other mishap won’t endanger anyone while the project is shut down.

Next, you need to revisit the contract. Generally, construction contracts will include language regarding your obligations and rights should the project shut down for an extended duration. Review this language carefully and, if necessary, consult your attorney to see how much wiggle room you may have at your disposal.

In addition, if you're unfamiliar with your state's laws about stalled construction jobs, inquire about the legalities involved.

“**Determine precisely how much insurance coverage you have, what it covers and how long it will last.**”

Check your insurance

After stopping work and taking a look at your potential legal obligations and rights, peruse your insurance policies. (Or you could just call your agent.) Determine precisely how much coverage you have, what it covers and how long it will last.

If you're a participant in an owner-controlled insurance program, be aware that it might not continue during the



stoppage. If *you* control the insurance, you'll have some tough decisions to make about whether to continue funding it for your company or any subcontractors involved.

Contact the owner

Armed with knowledge of the contract, applicable state law and your insurance coverage, you can then go back to the owner and request authorization and compensation for any work that must be completed to stabilize and secure the job site. This may include erecting fencing, removing flammables and putting up additional safety-related signage.

Have a plan

Unfortunately, stalled or even completely scuttled projects haven't exactly been a rarity lately. But that's just all the more reason to have a plan that you can execute to protect yourself in this eventuality.

Online equipment auctions bring convenience

Among the more challenging positions that contractors can find themselves in is desperately needing a piece of equipment and having only a short time to get it. You could easily overpay just to get a job or keep one rolling along.

But what if we told you there was a way to buy that much-needed asset (so you have it long term) at a remarkably low price without ever leaving your office? The answer, as is so often the case these days, lies in the cloud.

By "cloud," of course, we mean "Internet" or, more specifically, online equipment auctions. These digital bid battles have been around for quite some time and offer convenience in a pinch as well as a way to grab a good buy when you see one.

To participate, you'll need to set up an account with the website in question. Then you can either dive right into the bidding or, for more formal auctions, wait for a scheduled event (generally occurring every week or two).

While considering your bid, you'll typically see photos and specs of the equipment up for sale along with ask and bid prices rolling down the screen as they're



updated. To place a bid, you simply key the dollar amount into an activity window provided by the site (no software downloads required, generally) and click the "Place Bid" button.

Naturally, there are risks to consider. First, make sure you're on a reputable website. Among the oldest dedicated auction sites is ironplanet.com. You could also look into machinerytrader.com, and there's always good ol' eBay, which has an extensive construction equipment section.

Whatever the site, be sure you're aware of all payment requirements as well as terms and conditions of sale before you start bidding. Look particularly at shipping costs, which can drive up your winning bid price considerably.

Are online equipment auctions the perfect solution to asset procurement? Certainly not. But they're an option worth exploring when the circumstances are right.

2599 Wilmington Road
New Castle, PA 16105
Address Service Requested

5700 Corporate Drive, Suite 650
Pittsburgh, PA 15237

381 Chestnut Street
Meadville, PA 16335

For additional copies or more information please contact James A. Pitzer, CPA,
Partner/Coordinator of Construction & Real Estate Services
at (724) 658-1565 or at jpitzer@carbis.com

Year end tax planning, continued from page 1

Your vehicles may drive additional tax savings

Just about every construction company needs vehicles to get people and materials to job sites. So, as you head into year end tax planning season, be sure to size up how you might save some additional tax dollars via your wheels.

For example, does your construction company plan to buy a new SUV? If so, under the Section 179 expensing rules (see main article), you may expense up to \$25,000 of the purchase price of a new or used SUV rated at more than 6,000 pounds but not exceeding 14,000 pounds. If the vehicle does exceed 14,000 pounds, the typical Sec. 179 expensing limits generally apply. Most important, under the bonus depreciation rules, you may be able to deduct 100% of the cost of a new SUV purchased for business purposes.

If you buy a vehicle for your business and it weighs 6,000 pounds or less, it won't be defined as an SUV and, therefore, will fall under the limits for passenger automobiles. For autos placed in service in 2011, the first-year depreciation limit is \$3,060 (\$3,160 for trucks and vans). An additional \$8,000 may apply to the purchase of a new (not used) vehicle under the bonus depreciation rules. That could drive up your total available depreciation in the 2011 tax year to as high as \$11,060 for cars and \$11,160 for trucks and vans.

Worried about luxury auto limitations? You may not need to be. They generally don't apply to vehicles that have been designed or modified in a way that makes personal use unlikely.

This publication is distributed with the understanding that the author, publisher and distributor are not rendering legal, accounting or other professional advice or opinions on specific facts or matters, and, accordingly, assume no liability whatsoever in connection with its use. © 2011

McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. McGladrey Alliance member firms maintain their name, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships. McGladrey Alliance is a business of RSM McGladrey, Inc., a leading professional services firm providing tax and consulting services. McGladrey is the brand under which RSM McGladrey, Inc. and McGladrey & Pullen, LLP serve clients' business needs. McGladrey, the McGladrey logo and the McGladrey Alliance signatures are used under license by RSM McGladrey, Inc. and McGladrey & Pullen, LLP.