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ACCOUNTING

Tax Breaks for Pivoting Your Business

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The construction industry has been through a roller-coaster of highs and lows the past couple of years. The pandemic has caused volatility in project timelines, staffing, regulations, and the supply chain in ways that may have forced you to reinvent how you do business. Each of these activities, however, can hold tax advantages if you know where to look.

Finding and Training New Workers

Even before the pandemic, there was a shortage of workers and a growing skills gap in the construction industry. The current job market is helping to fill that gap with a shift of workers from more distressed sectors and a new surge of young adults opting out of expensive four-year professional degrees. But even with the promise of potential new workers comes the expense of attracting and training them.

Tax deductions associated with advertising job openings (including through a job agency), the cost of training workers on the job and in areas like health and safety, and more can help reduce that price tag, though. You may even be able to offset the cost of learning new construction processes, software, and technology—which will not only streamline the business, but can help you attract digitally savvy, innovative workers.

Keeping Workers Safe

As work sites ramp back up, the added costs to protect workers from COVID-19 is ever-present. Extra personal protective equipment (PPE), cleaning products, sanitizing equipment, signage, COVID-19 testing, OSHA training, and more are expenses that can add up.

Check with your CPA for the best ways to offset the cost of these essential supplies and protocols. Many can be deducted under traditional tax breaks but also through special COVID-19 relief credits or Paycheck Protection Program (PPP) funds.

Offsetting Hidden Losses

High lumber, steel, and other supply costs along with fluctuating energy prices and global supply chain hiccups have led to unpredictable construction costs. These changes can dramatically affect the accuracy of your bids. It's more important than ever to pay attention to these market fluctuations and to ensure that your bids are as accurate as possible in every other aspect. Getting your sales and use taxes estimated correctly when bidding can help.

The Texas storms may have damaged sites and equipment in ways you never imagined could happen, too. It can seem trivial to add up these little losses here and there, especially in years your business income has grown, but it's important to do so. You may be surprised at how much taxes you can save by getting "credit" to offset your gains.

Innovating How You Do Things

A highlight of the past year has been watching savvy business owners reinvent their businesses. In the construction industry, that innovation has taken several forms—most of them surprisingly tax deductible. Perhaps you've:

- Experimented with the materials or the processes you use to overcome project challenges, which may qualify for research and development (R&D) tax credits.
- Purchased or rented new or used equipment outside your normal scope, which can usually be tax deductible using a depreciation method or as an ordinary expense (depending on the circumstance).
- Tried out new revenue channels with varying tax obligations by working with non-profits, qualifying for government contracts, getting serious about green building techniques, or crossing state lines for work.

Don't forget to mention each of these changes to your tax advisor. You may be surprised how they affect your tax bill.

Weathering Stops and Delays

Many new construction jobs were delayed or cancelled in 2020 and some remain on hold while the original plans for areas like office space are re-evaluated. If this has happened to your business—and projects you thought would be complete by now aren't—you may have some tax-saving options.

First, if you're a small business contractor with annual gross receipts averaging $25 million or less, you may be able to use the completed contract method of accounting to defer taxes on incomplete long-term contracts that you expect to finish within the next two years. Second, if you're self-employed, consider reasons to either defer or accelerate end-of-year income. With fluctuating project loads and factors like PPP possibly at play, you may decide to push some income to 2022 or, conversely, invoice as much as you can before the end of the year.

Following New Rules

Remember the payroll tax holiday in 2020? You still owed those taxes and should have paid up by now. Penalties for skipping payroll taxes are some of the most severe – simply failing to file can carry a 15% penalty, and the addition of a trust fund recovery penalty can make the business owner 100% personally responsible for repayment. So if you're still celebrating that time "off," you need to catch back up.

If you received a PPP loan, take the forgiveness process seriously. You may have heard that loans under a certain threshold will be automatically forgiven, but that doesn't mean you can bend the rules on the money spent or miss critical deadlines. Borrowers receiving more than $2 million in PPP funds will automatically be audited for compliance when they ask for loan forgiveness. Employee retention credit and other opportunities are also still out there for the taking in 2021, but they represent new territory for taxpayers.

Steven Bankler has more than 44 years of experience in the accounting industry. Steven's expertise lies in consulting, planning, tax, and asset protection as well as exit strategy services for closely held businesses. He also provides litigation support (both as a testifying expert witness and a consultingexpert), business negotiations and estate planning. Visit www.bankler.com for additional tax strategy tipsand to learn more about Steven Bankler, CPA, Ltd.