The Top 50 Construction Accounting Firms™: Balance Begins With a Confident CPA

BY CYBELE TAMULONIS

CPA firms serving construction clients practice one of the most complicated forms of business accounting in existence. All top CPAs are well-versed in accounting, bookkeeping and tax advice. The best bring balance and stability to thousands of construction companies as highly trusted business advisors. For this inaugural ranking, CE reached out to hundreds of U.S. accounting firms with a dedicated construction practice to learn what is keeping their clients up at night.

WORKFORCE SHORTAGE
The labor deficit is the #1 concern for construction CPAs and their clients. During the Great Recession of 2007-2009, multitudes of projects were delayed or canceled. Thousands of contractors went out of business. Construction suffered more layoffs than any other sector as unemployment reached a staggering 15% rate. Legions of skilled workers left the industry or simply retired.

A decade later, CPAs report their contractor clients are still recovering from the aftershock. “Every client we talk with has the challenge of finding skilled laborers and candidates willing to join the trades. Our clients are ready to pay high dollars, but so is their competition,” says John Schwab, construction practice leader at Wipfli.

Legislation and political pressure on immigration reform have taken a toll on an already tight labor force, notes Todd Feuerman, chair of the construction services group at Ellin and Tucker. “Companies are struggling to find skilled people to work in a very challenging manual work environment at the proper pay scale.”

“Our clients’ biggest concern is the ability to attract top-notch talent and retain them in this competitive labor market,” says Jill Bosco, managing principal of construction for CLA. “They want to increase profitability and decrease turnover by incentivizing and motivating their employees.”

Exacerbating this issue in the Pacific Northwest, large employers like Amazon and Boeing are scooping talent out of the market. Rhett Ennis, construction practice group leader at Seattle-based Berntson Porter & Co., attributes the lack of laborers, carpenters, tradesmen and women entering construction to the emphasis on post-secondary education. “We are seeing construction businesses investing in high school vocational programs to address this significant problem,” he says.

Contractors attitudes towards employees are evolving, says Martin McCarthy, managing partner at McCarthy & Co. “Companies are changing their culture to attract workers. Never has there been a time that the employee has as much control as they do now.”

While it’s true that contractors can’t get 20 years of experience from a 20-year-old, tapping into the tech-savvy generation provides an edge over competitors. “Contractors need to change from what has worked with the baby boomers, who are retiring, and create interest so that millennials will enter, stay and succeed in the construction industry,” says Schwab.

In addition to attracting younger workers, digital transformation of existing business processes often has surprising financial and productivity gains. “Transformation requires documenting and understanding every step of existing processes,” says Robert Nagle, principal at Rehmann. “Think accounts payable or payroll to start. Does your field labor enter time with mobile devices? If this is not already in place, you are behind some of your clients’ payrolls.”

Top 10 Accounting Firms Ranked by Number of Construction CPAs

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While top CPAs bring balance and stability to construction companies, they also help them navigate the challenges of a tight labor market and the digital transformation needed to stay competitive.
competitors. And chances are your organization is incurring needless hours manually compiling hours and job costing details, with risk of error. Younger workers embrace automation and feel confident the organization is investing in the future.”

BUSINESS SUCCESSION
The looming exodus of experienced building boomers has top CPAs fielding an increasing number of questions from construction clients about business valuation, retirement planning and a smooth transition to family members, employees or new owners. “Succession concerns are growing at an exponential pace, mostly a result of our graying baby boomer entrepreneurs now seeking a comfortable exit into their golden years,” says Matthew Burchett, partner at Brown Edwards & Co.

“With succession to family or key employees, owners need to know they have options, how the value of the company is determined, and how it can be structured to make it affordable, yet not burden the company with debt,” notes Schwab. Many family-owned businesses have concerns about passing the torch to the next generation. “Current leaders fear a lack of intensity and drive among successor generations may result in entity failures. The older group has sacrificed mightily for its success, whereas the younger group is quite vocal and insistent upon ‘work-life’ balance,” says Burchett. Overcoming these differences requires bridging the generation gap. “One hopes the jury will be out for a long time on this question, because a quick verdict is unlikely to be favorable.”

“While a family-owned construction company often wants the next generation to run the business, the level of experience and commitment to the business, along with access to capital, can limit the ability to ensure a smooth transition,” says Feuerman.

“Then the real issue becomes, how do you sell the company to maximize value? Who is the right buyer? And how do you ensure the business will live long after you leave?”

“We’ve seen clients selling to PE groups, rather than being able to find a legacy alternative to continue to run the business,” notes James Mitchell, partner at Smith Leonard.

“The more proactive a contractor is, the more successful the transition will be for both parties,” adds Brian Bohman, partner at Wipfli.

CYBERSECURITY
As technology increasingly disrupts the industry, cyber attacks are evolving and occurring more frequently. More than 67% of The Top 50 Construction Accounting Firms provide cybersecurity consulting services. “Contractors must look for ways to prevent them and detect potential intrusions early in order to mitigate damage,” advises Schwab. “Currently, the average time it takes between a network compromise until it is discovered is over 200 days. Detection and response solutions can shrink this time to minutes or hours.”

Ennis agrees. “Evaluate your firm’s vulnerabilities and implement data breach protection tools. Using varying layers of protection and redundancies where you can afford them can compartmentalize a breach if one happens,” he says. “The key, though, is the education of all employees. Ninety-five percent of cybersecurity breaches are due to human error, phishing or social engineering.” Ennis recommends providing annual security awareness training and reinforcing it with ongoing mock phishing and social engineering campaigns.

“The most important advice we can give any firm is to assume that you are vulnerable,” says Leslie Paull, senior manager at LaPorte CPAs. “Firms may want to consider purchasing cybersecurity insurance.”
Create Opportunities

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Southeast Regional Leader  
CLA Construction Managing Principal

Teresa Arrighi  
Southwest and Mountain  
West Regional Leader  
Novato

Darrel Mullenbach  
Midwest Regional Leader  
Minneapolis

Mike Africk  
East Midwest Regional Leader  
Oakbrook

Ben Theuninck  
National Construction Tax  
Minneapolis

Julian Xavier  
National Construction Assurance  
Walnut Creek

Emily Gunther  
National Construction Succession and Wealth  
Philadelphia

Randy Krebs  
National Construction BizOps  
Indianapolis

Jeffrey Nesbitt  
National Construction Technology and Operational Consulting  
Phoenix

Jay Triolo  
Emerging Construction Professionals Strategic Leader  
Pittsburgh

Tim Mahoney  
Construction Data Analytics Strategic Leader  
Sacramento

CLAconnect.com/construction
CLIMATE CHANGE
As if contractors don't have enough problems, the consequences of climate change are beginning to impact the bottom line. “We’ve had more rainy days in the past two years than I can remember,” says Dennis Dlugosz, director of construction services at Midwest-based Corrigan Krause CPAs. “It’s extremely unpredictable.”

For contractors that are paid on performance, the record number of rainy days is bad news indeed. Due to an inability to perform the work because of the weather, many companies are carrying larger backlogs and lower billings. “This creates less profitable years and the need for more working capital,” explains Dlugosz. “Try going to the bank and saying, ‘Hey we need more money because we lost money. But look at all this work that we have, but couldn’t complete.’ That only works so many times. I see further stress being created on working capital lines if this weather pattern continues.”

Factory or field? To maximize labor investments and make weather delays a non-issue, construction firms are embracing the benefits of prefabrication. “Contractors are performing more of the work previously done on the job site in factories,” says Robert Mercado, partner at Marcum LLP. “Allowing the work to be performed in a controlled environment accommodates a reduced workforce and leads to more innovation in automation.”

THE NEXT RECESSION
Faced with increased competition and shrinking margins, construction owners should begin preparing now for the inevitable downturn, says Bosco. “Our clients are rightfully concerned over the impending financial downturn. Planning begins now, during profitable times in order to prepare for any setbacks.”

Schwab agrees. “Contractors should prepare for how they will adjust and adapt their businesses when the construction environment slows. With growth and a strong construction environment, some bad habits and inefficiencies are developing. Identifying these inefficiencies and making necessary adjustments will be key to surviving any future downturns.”

Top 10 Accounting Firms Ranked by Number of Construction Clients in 2018

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Methodology for The Top 50 Construction Accounting Firms
CE developed The Top 50 Construction Accounting Firms ranking by asking hundreds of U.S. construction accounting firms to complete a survey. Data collected included: 1) 2018 revenues from construction practice; 2) number of CPAs in construction practice; 3) percentage of firm’s total revenues from construction practice; 4) number of construction clients in 2018; 5) number of office locations with a construction accounting practice; 6) number of employees with CPA certification; and 7) year construction accounting practice established. The ranking was determined by an algorithm that weighted these factors in descending order of importance. Note: A number of accounting firms elected not to share revenues, which affected their ranking. For more information, contact surveys@magazinesexperts.com.

KEY: Number of states where the firm is licensed to practice accounting, including Washington, D.C. and Puerto Rico. Percentage of overall firm revenues that its construction practice represents. Areas of practice are abbreviated: Audit, Accounting and Assurance (A), Bank Financing Assistance (B), Bookkeeping (Bk), Business Planning (BP), Consulting (C), Cybersecurity (Cy), Data Analytics (Da), Employee Benefit Plans (Eb), Family Office (Fo), Forensic Accounting (Fa), Fraud Investigations (Fi), IT Management (It), Litigation Support / Expert Testimony (Lt), Mergers & Acquisitions (Ma), Advice (A), Profit Enhancement (Pe), Risk Management (Rm), Strategic Planning (Sp), Succession Planning (Su), Surety Bonding Credit Assistance (SB), Tax Preparation (T), Valuation Services (V), Wealth Management (WM). Not provided (-).
“Construction, by its very nature, is a cyclical industry. Even after the recovery began, to remain viable, many construction companies entered markets they had not participated in previously and lowered their margins,” says Paull. “The economy is expanding but many companies are committed to multi-year projects at those lower margins. At the same time, competition for construction workers is heating up, raising labor costs, and shrinking margins further. Tariffs are increasing the price of many key construction materials such as steel. The result is that economic growth has not benefited the bottom line of many construction companies.”

**POSITIVE OUTLOOK**

While contractors must plan for an eventual downturn, “the general current trend for the industry is positive,” says Joseph Natarelli, national construction services industry leader at Marcum LLP. “We have seen a major increase in the number of commercial construction backlogs and improvement in the general business environment. Infrastructure, hospitality and office construction, in particular, have been standouts.”

“Subcontractors have been especially selective and are seeing margins grow tremendously because they are in high demand,” notes Mitchell. “GCs are having trouble finding subs to perform all the work, and it’s coming at a higher price tag.”

To ensure a healthy business lifespan, treat your relationship with your experienced construction CPA as you would a trusted doctor. Check in regularly, show them everything, heed their advice and get a second opinion if needed.

Cybele Tamulonis is marketing manager at MagazineXperts. For more information, email surveys@magazineexperts.com.

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## Top Takeaways from The Tax Cuts and Jobs Act

The TCJA has been a boon for contractors and more work for CPAs. “Every client had to be looked at differently this year,” says James Mitchell, partner at Smith Leonard PLLC. “Our tax department had the roughest busy season in memory because of the time it took to re-evaluate each client and attempt to maximize their tax savings.” Here are some valuable TCJA takeaways from experts at leading construction accounting firms.

### SECTION 199A DEDUCTION FOR 20% OF PASS-THRU INCOME

“Because many construction companies are structured as flow-thru entities for income tax purposes, the TCJA’s new 20% deduction on flow-thru income has been one of the hottest topics of discussion,” says John Schwab, construction industry practice leader at Wipfli LLP. “It effectively reduces tax liability without the many ‘strings’ that generally apply to other tax-saving opportunities.”

### MORE CONTRACTORS BENEFIT FROM CCM

“More businesses qualify to use the completed contract method (CCM) method of accounting for construction projects that span more than one tax year,” says Leslie Paull, senior manager at LaPorte CPAs & Business Advisors. “CCM allows firms to not report the project’s revenue and expenses until completion. Previously, this method was restricted to organizations with average annual gross receipts of less than $10 million averaged over the past three years. The cap has now grown to $25 million for years after 2017.”

### CONTRACTORS ARE NOT SWITCHING TO C-CORP FOR THE 21% FLAT TAX

The TCJA provides qualified C-corps with a flat tax rate of 21% compared to the highest individual rate of 37%. C-corps are not subject to the AMT or SALT limitations.

“You might question why anyone would choose to conduct business as anything other than a C-corp,” says Barry Fischman, partner at Marcum LLP. “Three factors counter these seemingly overwhelming advantages: 1) new lower individual federal income tax rates; 2) the new deduction for pass-through income and 3) double taxation on funds withdrawn from a C-corp.”

Fischman points out that a contractor that is distributing cash flow has excess working capital, and can avail itself of IRC Sec 199A to bring its net federal tax rate down to 29.6% at the highest level.

“In comparison, shareholders of a C-corp that pays tax at 21% and then distributes after-tax excess cash flow as a dividend may be subject to additional federal taxes of 23.8% on the qualified dividend, says Fischman. “The double tax rate can be as high as 39.8%. Contractors need to address their specific facts and circumstances, including both tax and non-tax considerations, regarding their choice of entity structure.”

### BONUS DEPRECIATION ON NEW AND USED EQUIPMENT

“Due to the enhanced bonus depreciation rules, contractors are now generally able to immediately expense 100% of property and equipment purchases,” says Rhett Ennis, construction practice leader at Bernston Porter & Company, PLLC. “The TCJA also ended like-kind exchanges on equipment,” notes Paull.

“Exchanging items such as machinery, equipment and vehicles now requires recognition of a gain or loss. However, the increase in the bonus depreciation from 50% to 100% offsets this change for many transactions. Bonus depreciation is also now allowed on used equipment.”
EVER WONDER WHERE THE PEOPLE WITH ALL THE ANSWERS, GET ALL THE ANSWERS?

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Joseph Natarelli, CPA
National Construction Industry Group Leader
203.781.9710 | joseph.natarelli@marcumllp.com

Accounting & Auditing Services
Tax Services
Fund Management Services
Surety Bond Investigations
Consulting Services
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Top Dozen
Doesn’t Scratch the Surface
of What Construction Means to Us

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Tony Hakes
National Construction Practice Leader
ahakes@cbiz.com | 602.650.6225

*MHM (Mayer Hoffman McCann P.C.) is an independent CPA firm that provides audit, review and attest services, and works closely with CBIZ, a business consulting, tax and financial services provider.
Contractors are still deciphering the intended and unintended consequences of the Tax Cuts and Jobs Act (TCJA) of 2018. Most significantly caught off guard were those that didn’t engage in tax planning, although those that did weren’t entirely immune either.

That’s because most companies—and even Congress—didn’t realize the inadvertent ripple effects of some regulations upon others.

In late 2017, TCJA became the most sweeping tax legislation since the Tax Reform Act of 1986, making small reductions to income tax rates for most individual tax brackets and significantly reducing the income tax rate for corporations. However, it hasn’t all been good news. The TCJA also eliminates or limits many tax breaks, and much of the tax relief is only temporary.

For contractors, some changes were particularly impactful, says Bobbi Hayes, CPA and partner out of Carr, Riggs & Ingram’s Albuquerque, New Mexico office. The firm’s construction practice, led by Larry May, is based in Jackson, Mississippi, and services to contractors are offered in all locations. “It has been hard for everyone, but especially contractors, to assess the impact of these changes.”

Following are a few of the most impactful changes.

**INTEREST DEDUCTION LIMITATION FOR COMPANIES WITH MORE THAN $25 MILLION IN REVENUE**

In effect, the deduction is capped at 30% of net income. “That means contractors can end up in a situation where a business loss could negate this deduction,” Hayes says. As one possible solution, contractors can change their depreciation calculation method by using the alternative depreciation system (ADS). However, Hayes warns that this significant accounting change is not necessarily for everyone.

**LIMITATION ON STATE AND LOCAL INCOME TAX DEDUCTIONS**

This change—limiting the deduction to $10,000—has impacted all taxpayers, even those in states with no income tax. That’s because states with minimal or nonexistent income tax typically have high property and/or sales taxes, which are also capped at $10,000. “Numerous clients were affected by this limitation—I suspect more than Congress anticipated,” Hayes says.
199A DEDUCTION
Section 199A allows taxpayers other than corporations a deduction of 20% of business income earned in a qualified trade or business, subject to certain limitations. However, this deduction sometimes runs afoul of limitations. “There are many pieces that determine how something is deducted for pass-through income,” Hayes says. “Clients believed they would get a 20% deduction based on the net income of their business, but in some cases this was offset by other pass-through business entities in which they held an interest.” Capital gains and other items can further affect the calculation.

EXCESS BUSINESS LOSS LIMITATION
Put simply, business loss deductions are now limited to $500,000. “One client had a $2.8 million capital gain passing through to his tax return, but had a $2 million tax loss from his business. As a result of the excess business loss limitation, he couldn’t use the entire $2 million loss. It was limited to $500,000.” The excess net operating loss carries forward.

There were other situations where contractors expected to use losses to offset other types of income, but the new limitation made that impossible.

DEPRECIATION LIMITATION
In this case, Congress did not extend the 15-year life for leasehold improvements. “The vast majority of clients who could take that type of a deduction in the past lost it,” Hayes says.

KEEP IN TOUCH
The bottom line? Contractors should communicate with their CPA to ensure they receive the maximum benefit from the current tax law. Carr, Riggs & Ingram is in the business of helping contractors of all sizes. The firm’s CPAs and advisors provide a broad range of accounting, auditing and tax services as well as wealth management, business succession, cybersecurity and data analytics.
What kind of financial disaster plan should a construction firm have in place?

A construction firm looking to avert financial disaster should create a contingency plan while economic times are good. Creativity amid a crisis is challenging.

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MANAGING PRINCIPAL OF CONSTRUCTION
CLA (CliftonLarsonAllen)

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CEO/CHAIRMAN
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How much of a priority is digital transformation?

How can accounts payable automation improve a construction firm’s accounting practices?

How can a construction firm maintain healthy cash flow year-round?

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DIRECTOR, CHAIR OF CONSTRUCTION SERVICES GROUP
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Carr, Riggs & Ingram CPAs and Advisors
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In what three areas should construction companies focus their energy to obtain high growth?

High growth construction companies can obtain a competitive edge by finding solutions to transitioning ownership, acquiring and maintaining talent, and adopting new technology.

BRIAN BOHMAN
PARTNER
Wipfli LLP

Why should a construction accounting professional review documents such as contracts and employee benefits plans?

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MICHELLE EASTMAN
CFO
North Mechanical Contracting and Service

What advice would you give a contractor regarding the new revenue recognition accounting rules?

If you have not started the implementation process, you need to as soon as possible.

TONY HAKES
LEAD MANAGING DIRECTOR AND SHAREHOLDER
CBIZ & Mayer Hoffman McCann P.C.

What are the top opportunities for construction companies to pursue following federal tax reform?

Proactive construction companies that plan strategically are in a strong position to benefit from the TCJA changes and positively impact their cash flow, financing and bonding.

PHILLIP ROSS
PARTNER AND PRACTICE LEADER, CONSTRUCTION INDUSTRY GROUP
Anchin, Block & Anchin LLP

What are the top accounting practices a construction firm should adhere to?

A strong accounting function can provide valuable information about a construction company and can help minimize risk.

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PARTNER
Eide Bailly LLP

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LINDA ROBERTS
PRINCIPAL
BerryDunn

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JOSEPH GLEBA
PARTNER
Porte Brown LLC

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INSURANCE AND BONDING
EXECUTIVE INSIGHTS

What are the top accounting practices a construction firm should adhere to?

Payments to vendors and subs should only be made when the payment from the customer has been received.

JOHN ROSCH
REGIONAL SALES MANAGER
Explorer Software

For the top accounting practices, contractors should prioritize the “ABCs”: allocating overhead, budgeting projects and cash flow reporting.

MIKE ODE
CEO
Payroll4Construction.com

First, the company should follow the percentage of completion method of accounting under the new revenue recognition standards.

LOUIS SANDOR III, CPA, CCIFP
PARTNER, PRACTICE LEADER OF CONSTRUCTION SERVICES TEAM
WithumSmith+Brown

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Increasingly complex construction projects carry additional risks, and with that comes the elevated likelihood of protracted litigation. Globally, industry analysts have noted increases in both the number of construction disputes, as well as the average length of time for them to be resolved.

With the implementation of prudent accounting practices, contractors can reduce the likelihood of adverse litigation and can maximize recovery in the event of economic loss. And for projects where litigation is unavoidable, proper internal accounting practices can serve to minimize the time and expense of outside consultants.

Contractors routinely face potential losses due to delays and changes in project scope. Recovery of these losses requires an ability to prove damages with reasonable certainty. Such losses may be difficult to quantify with requisite precision if sufficient controls and accounting practices are not in place during the course of the project.

**Start With Accurate Bidding**

At the start of each project, contractors should be sure to prepare and maintain accurate bid documents with details on all anticipated project costs. Ideally, such costs will be
supported by actual historical costs based on similar completed projects. Accurate bidding can reduce the likelihood of an underbid that makes performance difficult and creates additional exposure.

**Document Changes**

Once construction begins, contractors must remain diligent and document changes in labor, materials and equipment costs. In the event of a delay claim, accurate records will be required to quantify the economic impact of such cost changes.

For loss recovery, contractors will often require both fact witnesses and damage experts to prove damage elements. The contractor must show that the damages could have been reasonably avoided, that the job was not underbid, and that the impact of market forces such as labor and material shortages or price increases have all been properly considered and segregated.

The contractor should also document what the costs would have been without delays or scope changes.

**Be Prepared to Prove Losses**

Contractor losses may include components such as additional or expert labor, overtime and idle labor (including salaries and burdens). Experts may be necessary to help prove the reasonableness of the baseline costs or the initial bid.

Losses also may include additional or enhanced materials, storage costs for delayed delivery, price escalation due to delayed delivery, and premiums paid for expedited manufacture, availability and delivery.

Excess equipment costs may include idle equipment rental and depreciation or rental value for contractor-owned equipment during extended delay. Recovery will normally require proof that the equipment could not be utilized on
other projects to avoid the unabsoled costs.

However, it also may be possible to show that demobilization and remobilization of such equipment would have been too costly or impractical due to the unknown length of a delay. With advanced awareness of these areas of potential recovery, contractors can act diligently to monitor accumulating costs.

Similarly, labor cost and workforce utilization should be documented. Reliable accounting records can increase the likelihood of recovery of additional labor costs due to delay. Again, contractors should be prepared to show that the additional labor costs could not have been absorbed by other concurrent projects, or that demobilization and remobilization of the labor force would be too costly.

**Back Up Liquidated Damage Provisions**

Contractors may feel a false sense of security based on the inclusion of liquidated damage provisions in their construction contracts. However, for these provisions to be enforced, contractors may have the burden of proving that the amounts set forth as liquidated damages were reasonably estimated.

If liquidated damage provisions are judged to be punitive rather than reasonable, courts may decline to enforce these provisions. Here again, accurate documentation of current and historical project costs and profit measures can help establish reasonableness and increase the likelihood of recovery in litigation.

**Segregate Costs**

Contractors also must segregate and account for additional costs associated with scope changes. Contractors are often required to perform work
in advance of approved change orders. In these situations, contractors must prudently segregate all additional costs, rather than comingling them with general project costs. Preemptive segregation is much more cost-efficient than retroactive efforts to segregate and quantify these same costs.

 Contractors pursuing total cost claims for widespread impact on projects will be required to have a firm command of their historical business documents. In litigation, they may be required to show that cost overruns were attributable to specific scope changes, rather than to an underbid. In these circumstances, accurate historical accounting records can help show the contractor’s ability to perform timely and profitability on past projects.

 Keep an Eye on Wage and Employment Regulations
 Contractors are also finding themselves increasingly the subject of litigation by their own employees in wage and hour lawsuits. Accurately monitoring pay regulations and properly calculating employee wages can be challenging due to ever-changing exemptions of who qualifies for overtime pay. Risk management requires awareness and diligent implementation of applicable employment regulations.

 With foresight and poorly designed accounting systems, unavoidable risks can be reasonably controlled.

 Robert Burton is a director in Marcum LLP’s advisory services division, where he provides forensic accounting and litigation support services focused on construction contractors, real estate developers, insurance companies and lenders. For more information, email robert.burton@marcumllp.com.

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The Impact of Digital Payments on Construction

BY JIM CAMPBELL

While B2C transactions have experienced a significant shift toward digital payments, particularly with the proliferation of apps like Apple Pay and Zelle, nearly 70% of all B2B payment volume is still paid by paper check. This is particularly true in the construction industry, where contractors often rely solely on paper checks to pay for labor, goods and physical supplies.

Why does this penchant remain so strong? A variety of factors are at play in construction, but what it really boils down to is simple: Paper is how decision-makers have handled payments for decades. The industry is notorious for maintaining the status quo, particularly when it comes to adopting new technology and managing money, but that is starting to change.

According to a recent construction study by EY, nearly 98% of respondents agreed that digital solutions are critical to the future viability of their company. This same study also cited project cost management as one of the top two issues that keep construction business owners up at night, so certainly the potential impact of technology is recognized.

Contractors often cling to paper checks because they think it helps control cash flow, but in reality, a paper check is just the start of a digital transaction. Now is the time for construction companies to look to the latest digital payment technology to benefit from more visibility and security around payments, as well as faster transfer of funds across the business.

Visibility

One of the primary challenges with paper checks is the lack of visibility they provide into payment status. After a general contractor hands a subcontractor a check on the jobsite or a contractor pays a vendor for purchased goods, the company has no idea when funds will be debited from its bank account.
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Construction and Real Estate
The timing is totally reliant on when the check is deposited and how long the bank takes to process it. Waiting to receive compensation for work or services without visibility into where the payment is in the fulfillment process is equally frustrating.

In contrast, digital payment solutions provide 24/7 insight into payment status, including both committed and approved costs. The money changes hands without requiring any paper, manual data entry or a visit to the bank, all while giving construction executives visibility into when the funds will leave their accounts.

The latest payments technology also comes equipped with mobile applications so contractors can view payments anywhere at any time, allowing them to stay on the jobsite longer rather than returning to the office to take care of paperwork.

**Security**

Preventing data breaches is top-of-mind across all industries, particularly in relation to sensitive financial information. While paper checks can easily be misplaced or stolen, digital payments provide a higher level of security for both parties involved in the transaction because payment processors have specific controls in place to protect data.

Money moves from one business to another across secure networks designed to mitigate any threats or vulnerabilities, ensuring greater accuracy in billing versus processing a paper check.

Additionally, financial technology helps prevent fraud through built-in alerts and approvals. If a payment is made that does not match up with transaction histories or work orders, the system will notify users in real time to help...
stop fraudulent payments before the transaction is completed.

**Speed**

Arguably the most impactful benefit of utilizing digital payments is the faster transfer of funds. By eliminating paper and manual processes like data entry, construction executives can save the company time and make payments more efficiently. Automation keeps payments on track, which helps improve working relationships, particularly with subcontractors. If subcontractors know they will receive funds in a timely, professional manner, they are more likely to work with the same general contractor on their next project.

Digital technology also provides different payment options, such as virtual card or ACH, so subcontractors and vendors can select a payment type based on their preference. Offering multiple forms of electronic payment benefits the construction firm as well, as it opens up the opportunity to experience early payment discounts or rebates.

**The Bottom Line**

By creating payment processes that are automated and repeatable, construction executives are prepared for future expansion and can take on more jobs without the worry of scaling financial processes.

By relying on technology that promotes transparency and efficiency around payments, decision-makers can ultimately focus more on jobs and less on the back office, eliminating any concerns about how and when payments are being made.

Jim Campbell is vice president of construction at AvidXchange. For more information, visit avidxchange.com.
Though the outlook for construction is strong right now, with several states putting considerable amounts of money into infrastructure projects that will keep the industry busy and growing for quite some time, the signs of a potential downturn may be on the horizon.

Historically, the construction industry has followed the growth and recession trends of the real estate industry. Currently, residential real estate appears to be softening. Margins are being squeezed and labor and material costs are increasing, but there’s still work available.

Here are some strategies construction executives can use to plan ahead.

Assess the Company’s Infrastructure and Technology
Consider the way the business is capitalized, including the debt-to-equity ratio. Now is the time to pay off debt, including deferred tax liabilities. A common tax strategy is to defer revenue to a later date, but lower rates are in place right now, so it could be a good time to begin paying off tax liabilities. The more cash and less debt the company has, the more it will be able to sustain business through a difficult economy.

Consider balancing spending with paying off debts and building a strong cash reserve. This includes carefully analyzing whether to buy out other companies and managing cash flow when taking on huge jobs that require lots of cash up front.

Assess the company’s communication capabilities and consider making any necessary upgrades so the technology is in place long before a downturn should occur. The ability to communicate in real time and instantly make changes to work orders and jobs online instead of having to submit paperwork are proven to have significant benefits to a business. Be aware of what competitors are doing in this area because technology will be a differentiator sooner than later.

Consider Various Tax Strategies
Tax reform fundamentally changed the tax landscape, creating new strategies and opportunities. Contractors should plan for a few things in the context of a potential economic downturn.

For example, the ability of pass-through entities to use business losses to offset other income has been limited to $250,000 for single filers and $500,000 for married couples filing jointly.

Additionally, for contractors that are involved with real estate, mortgage interest can be business interest, so the Section 163(j) limitations could have a significant impact. These new rules limit the amount of deductible interest expenses to 30% of what is essentially Earnings Before Interest, Depreciation and Amortization (EBIDA).

In the event of a downturn, contractors are generally more leveraged and have more interest. Previously, one of the most common tax strategies was to carryback these losses, but the new rules remove this option and instead create a net operating loss carryforward.

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Consider balancing spending with paying off debts and building a strong cash reserve.

business income deduction. The general concept here is to grant non-C corporation taxpayers a deduction equal to 20% of their QBI (business income) from a qualified trade or business. While bonus depreciation rules allow contractors to expense new or used equipment until Dec. 31, 2022, which in turn reduces their tax liability, in the event of a downturn, they won’t have this deduction in later years and could end up with higher taxes when they don’t have the work or the cash to pay them.

Companies may want to consider utilizing more of the QBI deduction and saving depreciation for later. This deduction isn’t a deferral and could help with cash flow.

The IRS seems to be watching for certain things to be included in tax returns, including often overlooked changes related to non-deductible fringe benefits and parking arrangements. These limitations and rules could impact a company if not properly accounted for.

Eve Dreyfuss specializes in tax planning and structuring of complex transactions for privately held companies, partnerships, flow-throughs and individuals in the construction, real estate, manufacturing and high-tech industries at Moss Adams. For more information, email eve.dreyfuss@mossadams.com.
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When It Comes to Licensing, Prevention Pays

BY CHRISTIAN HARING

It’s always cheaper to seek preventive medical care than to wait until the last minute to go to the emergency room. Yet construction companies often end up in the licensing equivalent of the ER, paying a steep price in wasted time, higher fees and damaged performance when rushing to enter a new jurisdiction or juggling multi-state filing obligations.

The first step in establishing healthy regulatory habits is to understand the full scope of data and processes that play a role in licensing and corporate good standing. The following factors affect a contractor’s licensing fitness:

• filings for each stage of the corporate life cycle;
• licenses and registrations to enter new states;
• renewals of existing licenses;
• employment statuses of qualifying individuals;
• registrations of branch offices; and
• corporate information such as fictitious names on file with the secretary of state and other authorities.

Contractors are often unprepared for the fallout that can come from a gap in any of these areas. In a typical construction company, these critical aspects of compliance are spread among staff in different areas using dead-end systems like spreadsheets and calendars, despite the fact they are interrelated in ways that directly affect a company’s bottom line.

The following preventive measures can help construction companies avoid costly errors and unexpected disruptions.

Connect Corporate Life Cycle Filings
Companies must maintain good standing in every state where they are registered. This includes filing annual reports, maintaining registered agent service to receive service of process, and maintaining accurate records with state authorities.

Yet few companies have a system in place that can:
• track filing deadlines, including renewals;
• identify where entities are registered;
• alert staff of changes that must be reported to the secretary of state and licensing boards;
• funnel critical notices to appropriate staff across the organization; and
• provide key stakeholders with a single source of truth for all of these activities.

To close the gaps and stay in front of these ongoing responsibilities, companies should identify all filing events that will come due in a given year and create an automatic system of reminders to ensure timely attention.

In addition, companies should identify information on record with authorities in each state and
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establish a formal way to alert appropriate staff when any of this information changes.

**Sync Up Licensing**

Another area where proactivity pays is licensing for opportunities in new jurisdictions. To enter a new state, contractors must navigate a complex process that generally includes foreign qualification of the business entity through the secretary of state, sitting for exams and applying for a license through the relevant licensing board.

The review process alone can take anywhere from two to six months, and even longer in some jurisdictions. This doesn’t even account for the time required to assemble all the required documents and prepare the application package for submission.

Because licenses must usually be in hand before offering services, contractors frequently miss out on prime opportunities because they couldn’t get the required license in time. Having to pass on millions of dollars in potential work over a license that costs a few hundred dollars is a tough pill to swallow.

To avoid those opportunity costs, companies should consider licensing proactively in jurisdictions where business development teams see potential. This is where...
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Track Renewals
An additional proactive step firms can take to protect their bottom lines is creating a system to track license renewals. Most contractor licenses must be renewed periodically, and for multi-state contracting firms, those deadlines tend to run throughout the year. As a result, it is very easy for a renewal to slip by unnoticed. In addition to the extra fees required to reinstate a lapsed license, every day that the lapse goes undetected exposes the company to charges of unlicensed practice.

For contractors, the risks are substantial. States are aggressively enforcing licensing laws, levying fines of up to $10,000 per violation. In addition, unlicensed practice can bring citations, project disruptions, and loss of the company’s legal right to enforce contracts, liens and bonds. In many states, any instance of unlicensed practice during the course of a project may jeopardize the company’s ability to collect payment for services, even for work that was completed perfectly. That’s a major hit to the bottom line.

Create Succession Plans For Qualifiers
The final area where contractors should exercise preventive care is succession planning for qualifying individuals. Because a general contractor license is tied to the qualifier who earned it, construction companies need to have a contingency plan in case of a sudden departure.

Once a qualifier leaves, a construction company has a short window, in some cases as little as 30 days, to appoint a replacement or risk forfeiting the company’s license. Given the licensing timelines noted above, loss of a key
staff member can wreak havoc on a firm’s operations, particularly in companies where a single qualifier is licensed in numerous states.

To prevent a licensing emergency, companies should research the steps required to license a qualified replacement in every jurisdiction where they are licensed. Use that information to draw up a formal, step-by-step plan, and make sure more than one staff member understands how to deploy it. In addition, contractors should identify staff members in the talent pipeline who could step up and apply for a license if a qualifier departs.

Christian Haring is an account executive at Harbor Compliance, a provider of compliance software and fully managed licensing, tax and entity management services for engineering, architecture and construction firms. For more information, email charing@harborcompliance.com.

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