CONSTRUCTION ACCOUNTING THAT REVEALS PROBLEMS EARLY: JOB COSTING, CHANGE ORDERS, AND WIP REPORTING

Construction businesses can stay profitable on paper while margin quietly slips away on individual jobs. This article explains how job costing, change-order management, and work-in-progress reporting work together to surface problems early. Learn what to look for in each system and how to keep all three telling the same story before issues become year-end surprises.

ENERGY EFFICIENT INCENTIVES FOR NEW CONSTRUCTION AND RENOVATION

The Inflation Reduction Act of 2022 (IRA) updated and reinstated several notable credits and deductions related to Solar and Energy efficiency. Construction of new residential or commercial structures are ideal candidates for these tax savings but they do not preclude existing structures being renovated. Below are a few notable tax considerations.

179D Deduction

179D is an option to accelerate the cost recovery of a commercial building, provided it satisfies certain energy efficiency standards, and is certified by a qualified third party. The deduction applies to owners or lessees of commercial buildings who make energy efficient improvements to building envelopes, interior lighting, and HVAC systems. For 2022, the deduction is $ per square foot (up to $ per square foot if prevailing wages were paid), not to exceed the total amount of deductions taken for the three years prior to energy certification. The IRA has increased the amount of the 179D deduction up to between $ to $ ft. – based on a sliding scale of eligibility contingent on the level of energy savings and whether prevailing wages were paid. To claim the maximum deduction, the project must meet the prevailing wage requirement and have at least a 50% reduction in annual energy costs, compared to the listed standards. As of the time of this writing the prevailing wage requirements have not yet been officially published. The IRA also allows for a deduction reset, and can now be taken every three years provided additional energy efficient improvements were made. Note that the depreciable basis of the building needs to be reduced by the amount of 179D deduction claimed.

45L Tax Credit

The 45L tax credit, also known as the “Energy Efficient Homes Credit” is a credit available to contractors on buildings meeting certain energy efficient standards sold or leased after December 31, 2005. For 2022, residential buildings three stories or less are eligible for a credit of up to $2,000 per dwelling unit. For 2023-2032, all residential buildings are eligible, provided they meet the energy saving standards, for a credit of $500-$5,000 depending on the level of energy efficiency and type of structure. The credit also applies to buildings that have undergone significant rehabilitation. To claim this credit, an energy analysis must be performed by a certified third party.

As these credits require specific parameters it is prudent to contact your TBC tax advisor for further information on whether these credits or other opportunities are available to you or your business.

By: Heather Mallette, CPA, Supervisor

REAL ESTATE AND THE CURRENT LOCAL ECONOMY

Real estate in the Capital Region is booming, rental prices are increasing and homes are selling at record highs. The local market inventory levels are still low which is resulting in local homes and apartments seeing an increase in value. Depending on your living situation it may be a great opportunity to take advantage of the skyrocketing market. Selling your home in the current environment could see a nice profit for you that may end up being tax free if your gain is below the allowed limits (more on this below). Those gains could go a long way towards a new home or to pay for rent if you want to wait for the market to cool down a bit.

Rising costs have yet to stabilize for Homebuilders which is causing them to have to pass these increases on to the consumers, thus increasing the cost of building a new home. It has also slowed the production as these cost increases are due to a shortage of needed supplies. If you are planning to build your new home, you will want to plan for these increased costs and the time delays in advance. This can help you be more confident that you will have the house construction completed and all costs covered by the date that you were looking to move in.

There are a few things to keep in mind when selling your home. The IRS allows you to exclude a gain from your taxes when you sell your main home. To qualify for the maximum exclusion of gain ($250,000 for single filers and $500,000 if married filing jointly), you must meet the Eligibility test. If you owned your home for a least 2 years of the previous 5 years leading up to the date of sale, you meet the ownership requirement and qualify for the exclusion. However, if you already sold a home in the past 24-month leading up to the sale of your current home you may be ineligible to exclude the gain on your current home from your taxes.

If you have any questions, or would like to discuss your specific situation, please contact your trusted TBC advisor.

By: Scott A. Kind, CPA, Shareholder

NYS CONSTRUCTION WAGES THEFT LAW AND WHAT YOU NEED TO KNOW

The construction wages theft law, which takes effect on January 4th, 2022, is legislation which puts the “contractor”, meaning the construction manager, general or prime contractor, liable for unpaid wages owed to a worker by any subcontractor on any level of the project. This legislation is not just something for public work; it encompasses private work, as well. Under this new law the contractor is liable for up to three years for this liability.

The law does not allow an employee or subcontractor to sign an agreement or release to waive the contractor’s liability, except under a collective bargaining agreement made by a bona fide building and construction trade labor union.

This is a hot topic, trending in all the construction related associations that TBC sits on boards of and works with. It has both the general contractors and subcontractors taking notes. Along with COVID-19 administrative duties, supply chain issues, and labor shortages, this is one more task for business owners to keep on their minds. Subcontractors should expect to see extra information requested from contractors, such as certified payrolls and/or certification that all workers are paid. Contracts could contain robust indemnification clauses and/or require payment bonds.

Sides that oppose the new bill feel that the extra procedures could cause payment delays and the cost of projects to increase. In addition, possible problems insuring projects, along with putting a high level of risk on contractors. Sides that back the bill believe that it’s a big win for the working class, with the hope it will eliminate wage theft and create greater oversight on construction sites and safer working environments. United fronts know the importance of protecting the members of the labor force, opposition is more focused on whether this is the right way to do it and who should be liable. Please contact your trusted TBC Advisor for more information.

By: Rob L. Kind, CPA, Co-Managing Shareholder