Have you positioned your Company to succeed in the next downturn and how will the election impact you?

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October 26, 2016
AGENDA

• Have you positioned your Company to succeed in the next downturn?

(Justin Amico)

– Summary of the current economy
– Lessons learned from 3/31/09 seminar “Strategy, Execution, and Planning”
– Positioning yourself personally for the next downturn
– Positioning your Company in the next downturn:
  ➢ People:
    • Developing the “A Team”
    • Keeping the “B Team”
    • Eliminating the “C Team”
  ➢ Training
  ➢ Systems
  ➢ Strategic Focus

• Current market trends and tax impact of the election:

(Jeffrey Rogers)

– Succession Planning Opportunities in a Down Economy
– Understanding the Terminology
– Vision of Hillary Clinton’s Tax Plan
– Specifics of Hillary Clinton’s Tax Plan:
  ➢ Business
  ➢ Individual
– Impact of Hillary Clinton’s Tax Plan
– Vision of Donald Trump’s Tax Plan
– Specifics of Donald Trump’s Tax Plan:
  ➢ Business
  ➢ Individual
– Impact of Donald Trump’s Tax Plan
– What their tax plans mean for you
– Hillary Clinton vs. Donald Trump Comparison
– Tax Planning Strategies

• Breakout Session
Have you positioned your Company to succeed in the next downturn?
SUMMARY OF THE CURRENT ECONOMY

- The single biggest impediment to growth and profitability **QUALIFIED LABOR** (field/office):
  - Union vs. Non-Union

- Too much work:
  - Get 10 guys there next week...Contract to follow
  - Mixed discipline - Still some who are too low
  - Backlogs out 12-24 months

- Mixed profits:
  - If you are not making $ now, something is wrong
  - Sector driven - General contractors, subcontractors, specialities
  - Margin pressure - Using lower numbers with risky vendors/subcontractors is costly

- Union recruiting is very strong - Carpenters are the leaders by a mile

- Innovation/PREFAB:
  - Mixed among trades/Unions:
    - Mechanical-Union Best of Class
    - Electrical-Non-Union Best of Class
    - Why???
SUMMARY OF THE CURRENT ECONOMY

• Overpaid workforce:
  – $120,000 project managers worth $90,000

• Liquidity:
  – Cash management - Slower $
  – Over invested in non-liquid assets

• Turnover costs $:
  – Headhunter Recruiter
  – Reputation
  – Delivery - Customers perception

• Reluctance to invest in the entry level:
  – High turnover low commitment to invest in youth
  – Direct impact on overhead %
  – Best of Class have accepted this and are committed to this “investment”

• Surety and bank credit is “easy”:
  – Personal guarantees are getting removed easier from sureties than banks
  – Property values have released equity - Good/Bad

• Not enough planning for the downturn:
  – Balance between making “Hay” when we can and the future
SUMMARY OF THE CURRENT ECONOMY

• Construction costs are at an all time high:
  – Land costs are high
  – Labor costs are high
  – BBJ - “these 2 factors alone could cause next slowdown”

• Clear Separation between Public Work Contractors and Private Work Contractors
  • Slow down in Public and VERY competitive

• Developers taking risk with Non-Union in “Union Territory”
SUMMARY OF THE CURRENT ECONOMY

• Real Estate Values High
• Owners wealth has increased outside the business:
  – 201(k) now back to 401(k)

<table>
<thead>
<tr>
<th>Stock Market</th>
<th>March 2009</th>
<th>October 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>DJIA</td>
<td>$ 6,300</td>
<td>$18,100</td>
</tr>
<tr>
<td>NASDAQ</td>
<td>$ 1,400</td>
<td>$ 5,200</td>
</tr>
<tr>
<td>S&amp;P</td>
<td>$ 720</td>
<td>$ 2,200</td>
</tr>
</tbody>
</table>
LESSONS LEARNED FROM 3/31/09 SEMINAR
“STRATEGY, EXECUTION, AND PLANNING”

Mistakes Contractors admitted during the last recession:

• Did not react fast enough...been through this many times before...
• Thought it would end soon
• Loyalty prevailed
• Versatility prevailed over age/attitude
• Systems incapable of defining costs
• Chased public work - DCAM
• Overspent/undercapitalized in good times
• Regrettably less focused on banking and bonding relationships because “too busy and no issues” - They need me...I do not need them...People calling me all the time
• Instituted pay cuts as opposed to making harder decisions
• Systems/problems
• Overstaffed in estimating, pricing work for people they would never want to work for or new types of work
POSITIONING YOURSELF FOR THE NEXT DOWNTURN

**PERSONAL**

- **LIFESTYLE**
- **FITNESS**
- **DEBT**
- **SAVINGS**
- **KID’S COLLEGE**

**SPENDING/CUT THE PERSONAL OVERHEAD**

**PAY DOWN DEBT FLIES IN THE FACE OF DEDUCTIONS**
POSITIONING YOUR COMPANY IN THE NEXT DOWNTURN

PEOPLE - DEVELOPING THE “A TEAM”

• Who has been driving the revenues and gross profit?:
  – What do they do that others are not? Set Standard/Hold Accountable
  – Sales Analysis - Rev/GP$/GP% & # of jobs comparison:
    ➢ Best of Class - Review quarterly
    ➢ Used in evaluation process
    ➢ Establishing standardized expectations - Accountability

• Who has the ability to change?
  – Leaders need to show that they can change - Behavior/habits
  – People who can change are “versatile” in downturns - “Versatile is Valuable”

• Who has the capacity to take on more without increasing risk?

• Who is going to take your job?

• Future owners - Develop a plan:
  – Succession plan to transition non-performing owners out of business
  – Difficult to transition in a downturn:
    ➢ Underperforming owners can cause future leaders/owners to leave - No room for growth
    ➢ Unrealistic view of worth
POSITIONING YOUR COMPANY IN THE NEXT DOWNTURN

PEOPLE - KEEPING THE “B TEAM”

Goal is to get the B’s to A’s

• Millennials
• Who are the B’s?
• Implement training programs:
  • External/Outsource may be more effective...do not fall into the “too busy” trap!!!
• Implement mentorship programs
• Quarterly or semi annual feedback
• Look beyond age
POSITIONING YOUR COMPANY IN THE NEXT DOWNTURN

PEOPLE - ELIMINATING THE “C TEAM”

• Cycle out the “C’s”

• Getting the minimal done, high maintenance, not learning:
  – Better off doing less work with out them...what are they really making us/costing us???

• D’s were the low hanging fruit in the past recession “Cruisers”

• Energy drainers:
  – Damage A&Bs

• Held us hostage

• Need to look at field too, regardless of Union/Non-Union status

• If you had to cut 10% tomorrow could you? - Would they be the right ones?
POSITIONING YOUR COMPANY IN THE NEXT DOWNTURN

Evaluate Vendors Now

• Subcontractors:
  – Should be rating annually for:
    ➢ Team player
    ➢ Financial stability
    ➢ Manpower
    ➢ Schedule
    ➢ Owner relationship
    ➢ Grades after each project (scoring/minimum to maintain “spot on the team”)
  – Alternatives and develop relationships
  – Succession
  – Relationship nurture present and future, eliminate future problems

• Material/Equipment:
  – Team players
  – Dependability
  – Growth
  – Succession
  – Alternatives and develop relationships
  – Working with you

• Bank/Bond:
  – Does your bank and bond broker have a “Back up Plan”?
POSITIONING YOUR COMPANY IN THE NEXT DOWNTURN

SYSTEMS

1) IT:
   • Standardize hardware - Eliminate “options” - Costly to maintain
   • Cloud Based:
     – Dummy hardware
     – Lowers annual support costs for space/hardware/external IT support
     – Access from anywhere - Wireless is everywhere
   • Integrated - Project Management/Accounting/(Estimating not critical):
     – New products to market
     – Eliminate offline, manual legacy systems
     – Better information provides accountability

2) Project Delivery:
   • What changes can you make now?
   • Busy times makes the project delivery system “loose”...need to tighten up
   • Back to basics:
     – Estimating
     – Handoff
     – Monthly project manager meetings
     – Closeout

3) Financial:
   • Should be able to get monthly financials by the 10th day of the month (latest)
POSITIONING YOUR COMPANY IN THE NEXT DOWNTURN

STRATEGIC FOCUS

• What got you here today may not be what gets you there tomorrow

• Grade each customer annually as a team (collaborative):
  – Strategic
  – Significant
  – Recurring
  – Profitable - Can they run work, it only gets worse in a downturn

• Companies are only as good as their people:
  – Companies do not build buildings...they build good people who build the buildings
  – How deep is your customer’s bench?
  – Are they out of control?
  – Do they have a succession plan?
POSITIONING YOUR COMPANY IN THE NEXT DOWNTURN

**STRATEGIC FOCUS**

- Where have we made our money and is it sustainable?:
  - Sales analysis by market type
  - Rev/GP$ & % by markets

- If you cannot make money in this market in good times - you will not in bad times and what does that do to our people/existing customers?
SUMMARY

• Look in the mirror - Identify areas in your organization that needs to change and don’t wait until the next down turn:
  – People
  – Customers/markets
  – Systems
1) If the economy were to slow down tomorrow, what would be the first thing that you do?

2) What changes have you made to your organization during the good times that you think will be sustainable in the next recession?

3) What is the single biggest mistake that you made in the last recession that you will be sure not to make in the next?
Current market trends and tax impact of the election
SUCCESSION PLANNING OPPORTUNITIES IN A DOWN ECONOMY

• Great opportunity to transition business to younger generation while value is depressed

• Sale - More Affordable Purchase Price for Buyer, Less Tax for Seller

• Gift - Less Lifetime Exclusion required:
  – Unified estate & gift exclusion = $5.45 Million
  – Massachusetts exclusion = $1 Million

• Gets future appreciation out of the estate

• Qualified Appraisal

• Recent Development - Significant restrictions placed on ability to utilized lack of control and lack of marketability discounts:
  – Proposed Regulations to go into effect January 1, 2017

• Voting vs. Non-Voting Stock Recapitalization

• Using Installment Notes
GRANTOR RETAINED ANNUITY TRUST ("GRAT")

Effect - Freeze values and avoid estate and gift tax on subsequent appreciation

Mechanics

- Grantor transfers assets (e.g., S Corporation stock) into trust
- Trust term for a period of years
- Trust pays an annuity to the grantor
- Trust transfers assets to trust beneficiaries at end of trust term

Gift Tax Consequences

- Taxable gift = Property FMV - PV income interest retained by grantor
- PV grantor’s income interest based on IRS valuation tables
- IRS valuation tables based on applicable federal interest rates ("AFR")
- Lower AFR = Higher PV = Lower residual value = Lower gift tax

Tax Free Appreciation Transfer

- Rate of return on GRAT assets exceeding AFR
- Beat the table rate = Increase in tax free appreciation transfer
- Lower the AFR = Lower the hurdle rate
- AFR is relatively low

GRATS are often “Zeroed-Out” - Fixed annuity is at sufficiently high amount resulting in zero gift tax
GRANTOR RETAINED ANNUITY TRUST ("GRAT")

Cautionary Notes

- Funding GRAT with business stock poses possible business cash flow problems - QAI does not allow for deferred annuity payment

- Funding with S Corporation stock:
  - S Election terminated unless GRAT qualifies as a grantor trust

  **E.G., Grantor retains right to substitute GRAT assets**

- Grantor Trust - Grantor is taxed on S Corporation taxable income:
  - Will grantor depend on annuity to pay tax on this income?

- Side Benefit - Income tax paid by grantor removed from estate

- Guaranteed income stream to grantor plus GRAT may provide for distributions to grantor in excess of annuity

- Grantor dies during GRAT term - GRAT assets revert to grantor’s estate

Dilemma

- Longer GRAT term - Greater appreciation transferred tax free, but grantor mortality risk increases

- Shorter GRAT term - Lower appreciation transfer tax free, but grantor mortality risk decreases
UNDERSTANDING THE TERMINOLOGY

Corporate/Business Tax - Refers to the tax on income if companies structured as C-Corporations (not “pass-through” entities)

C-Corporations

• Entities taxed completely separate from owners
• Current tax rates:

<table>
<thead>
<tr>
<th>Taxable Income Over</th>
<th>Not Over</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 0</td>
<td>$ 50,000</td>
<td>15%</td>
</tr>
<tr>
<td>$ 50,000</td>
<td>$ 75,000</td>
<td>25%</td>
</tr>
<tr>
<td>$ 75,000</td>
<td>$ 100,000</td>
<td>34%</td>
</tr>
<tr>
<td>$ 100,000</td>
<td>$ 335,000</td>
<td>39%</td>
</tr>
<tr>
<td>$ 335,000</td>
<td>$ 10,000,000</td>
<td>34%</td>
</tr>
<tr>
<td>&gt;$ 10,000,000</td>
<td></td>
<td>35%</td>
</tr>
</tbody>
</table>

• Second level of tax applies at individual capital gain tax rates when owners distribute earnings from the company

Pass-Through Entities

• S-Corporations and Partnerships (including LLC’s)
• Income taxed at individual owner level regardless of whether distribution taken
• Tax imposed at individual ordinary tax rates
• No second level of tax
UNDERSTANDING THE TERMINOLOGY

Capital Gain Tax Rates

• If investment held for less than one year ("short-term"), tax imposed at ordinary tax rates

• If investment held for greater than one year ("long-term"), tax rate depends upon ordinary income bracket:
  – 0% capital gain tax rate = Up to approx. $75,000 taxable income (MFJ)
  – 15% capital gain tax rate = $75,000 taxable income to approx. $465,000 taxable income
  – 20% capital gain tax rate = >$465,000 taxable income

• Capital Gain rates apply to “Qualified” Dividends (i.e.; C-Corp Dividends)

• 3.8% surtax (referred to as the Net Investment Income tax) may apply if modified adjusted gross income exceeds $250,000 (MFJ)

• Max fed long-term capital gain rate = 23.8% (20% + 3.8%)

• Max fed short-term capital gain rate = 43.4% (39.6% + 3.8%)

• Massachusetts tax rates = 5.15% on long-term gains/12% on short-term gains
UNDERSTANDING THE TERMINOLOGY

Ordinary Tax Rates - All other sources of income (Wages, Pass-through, Interest, Retirement, etc.)

Tax Rates - Married Individuals Filing Joint and Surviving Spouses - 2016

<table>
<thead>
<tr>
<th>Over</th>
<th>But Not Over</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>$18,550</td>
<td>10.0%</td>
</tr>
<tr>
<td>$18,550</td>
<td>$75,300</td>
<td>15.0%</td>
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<tr>
<td>$75,300</td>
<td>$151,900</td>
<td>25.0%</td>
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<tr>
<td>$151,900</td>
<td>$231,450</td>
<td>28.0%</td>
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<td>$231,450</td>
<td>$413,350</td>
<td>33.0%</td>
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<td>$413,350</td>
<td>$466,950</td>
<td>35.0%</td>
</tr>
<tr>
<td>$466,950</td>
<td></td>
<td>39.6%</td>
</tr>
</tbody>
</table>
UNDERSTANDING THE TERMINOLOGY

Taxable Income: Total Income (Both Ordinary and Capital Gain) less Allowable **Deductions**

**Deductions**

- Above the AGI line (DPAD) vs. Below the AGI line
- Standard Deduction vs. Itemized Deductions
- 2016 Standard Deduction: $6,300 single/$12,600 MFJ
- Most Common Itemized Deductions:
  - Charitable Contributions
  - Mortgage Interest
  - Taxes: State Income, Real Estate, Vehicle Excise
- Pease Limitation Phaseout: 3% of AGI greater than $311,300 (MFJ)
- Personal Exemptions - $4,050 per dependent
- Phaseout range - $311,300 to $433,800 (MFJ)

**Regular Tax** = Taxable Income * Applicable Ordinary and/or Capital Gain Tax Rate

**Alternative Minimum Tax (AMT)**

- Alternate way of calculating tax
- Certain deductions not allowed (i.e., taxes)
- Flat 28% tax rate after approx. $80,000 exemption allowance
- Taxpayers pay the greater of regular tax or AMT
- Impacts small contractor long-term contract method of accounting

**Estate Tax**

- Tax imposed on fair market value of decedent’s estate
- Taxpayer and spouse each have $5 million exclusion
- Tax rate = 40%
- Not imposed until second spouse passes
VISION OF HILLARY CLINTON’S TAX PLAN

• Restore basic fairness to our tax code
• Close corporate and Wall Street tax loopholes and invest in America
• Simplify and cut taxes for small businesses so they can hire and grow
• Provide tax relief to working families from the rising costs they face
• Pay for ambitious investments in a fiscally responsible way
SPECIFICS OF HILLARY CLINTON’S TAX PLAN
(BUSINESS)

• Businesses with receipts up to $25 million could use cash method of accounting including inventories and depreciable assets

• Firms with gross receipts of $1 million or less could use “checkbook accounting”

• Double Section 179 expensing from $500,000 to $1 million

• Other proposals geared toward multinational corporations form lowering United States taxes
SPECIFICS OF HILLARY CLINTON’S TAX PLAN (INDIVIDUAL)

- Fair Share Surcharge - 4% surcharge imposed on Taxpayers making more than $5 million
- Buffett Rule - Ensure that those making more than $1 million pay a 30% effective rate
- Limit the tax benefit for specific deductions and exclusions to 28% (does not include charity)
- Adjust capital gain rates based on holding periods:

<table>
<thead>
<tr>
<th>Holding Period</th>
<th>Tax Rate</th>
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<tbody>
<tr>
<td>0-2 Years</td>
<td>43.4%</td>
</tr>
<tr>
<td>2-3 Years</td>
<td>39.8%</td>
</tr>
<tr>
<td>3-4 Years</td>
<td>35.8%</td>
</tr>
<tr>
<td>4-5 Years</td>
<td>31.8%</td>
</tr>
<tr>
<td>5-6 Years</td>
<td>27.8%</td>
</tr>
<tr>
<td>Over 6 Years</td>
<td>23.8%</td>
</tr>
</tbody>
</table>

- Limit Usage of Like-Kind Exchange gain deferral to gains of $1 million
- Eliminate Step up in Basis on Appreciated assets held until death
- Restore Estate Tax to 2009 parameters ($3.5 million exclusion, 45%-65% tax rate)
IMPACT OF HILLARY CLINTON’S TAX PLAN

- Increase federal revenue of $1.4 trillion over first decade
- Decrease Federal Debt by $1.6 trillion over first decade
- Highest 1 percent of Households would pay more than 90% of proposed tax increases
- Highest 1 percent of Households would have after tax income reduce by approximately 7%
- Decrease incentives for high-income households to work, save, and invest
- Increase to after-tax income for low-and middle-income families
- Could result in certain S-Corporations converting to C-Corporations
- Could potentially result in the elimination of jobs

VISION OF DONALD TRUMP’S TAX PLAN

• Reduce taxes across-the-board, especially for working and middle-income Americans who will receive a massive tax reduction

• Ensure the rich will pay their fair share, but no one will pay so much that it destroys jobs or undermines our ability to compete

• Eliminate special interest loopholes, make our business tax rate more competitive to keep jobs in America, create new opportunities and revitalize our economy

• Reduce the cost of childcare by allowing families to fully deduct the average cost of childcare from their taxes, including stay-at-home parents
SPECIFICS OF DONALD TRUMP’S TAX PLAN (BUSINESS)

- Reduce Corporate Tax Rate from 35% to 15%
- Owners of Pass-through Entities could elect 15% tax rate
- Distributions from pass-through entities would be taxed as dividends “large”
- Eliminates the corporate Alternative Minimum Tax
- Allows firms engaged in manufacturing in the United States to choose between the full expensing of capital investment and the deductibility of interest paid
- Eliminates the Domestic Production Activities Deduction (Section 199) and all other business credits, except for the research and development credit
SPECIFICS OF DONALD TRUMP’S TAX PLAN
(INDIVIDUAL)

- Consolidates the current 7 tax brackets into 3, with rates on ordinary income of 12%, 25%, and 33%
- Adapts the current rates for qualified capital gains and dividends to the new brackets
- Eliminates the head of household filing status
- Eliminates the Net Investment Income Tax
- Increases the standard deduction from $6,300 to $15,000 for singles and from $12,600 to $30,000 for married couples filing jointly
- Eliminates the personal exemption and introduces other childcare-related tax provisions
- Makes childcare costs deductible from adjusted gross income for most Americans (above-the-line), up to the average cost of care in their state ($13,000+ in MA) - The deduction would be phased out for individuals earning more than $250,000 or couples earning more than $500,000
- Caps itemized deductions at $100,000 for single filers and $200,000 for married couples filing jointly
- Eliminates the individual alternative minimum tax
- Eliminates estate and gift tax but taxes appreciated assets held until death
## Individual Income Tax Brackets Under the Trump Plan

<table>
<thead>
<tr>
<th>Ordinary Income Rate</th>
<th>Capital Gains Rate</th>
<th>Single Filers</th>
<th>Married Joint Filers</th>
</tr>
</thead>
<tbody>
<tr>
<td>12%</td>
<td>0%</td>
<td>$0 to $37,500</td>
<td>$0 to $75,000</td>
</tr>
<tr>
<td>25%</td>
<td>15%</td>
<td>$37,500 to $112,500</td>
<td>$75,000 to $225,000</td>
</tr>
<tr>
<td>33%</td>
<td>20%</td>
<td>$112,500+</td>
<td>$225,000+</td>
</tr>
</tbody>
</table>
IMPACT OF DONALD TRUMP’S TAX PLAN

• Taxes cut at every income level - Average tax bill down $3,000 in 2017
• Highest income earners would benefit the most - 14% decrease for those making > $3.7 million
• Marginal tax rate cuts would boost incentives to work, save, and invest
• Increase the incentive for investment in the United States
• Increased investment could raise labor productivity and United States wages by increasing capital per worker
• Reduction of Federal revenue by $6.2 trillion over first decade; Federal debt would increase by $7.2 trillion over first decade
• Could result in a significant number of employee wage earners setting up S-Corporations to take advantage of lower pass-through tax
• Could result in S-Corporations converting to C-Corp status

## HILLARY CLINTON VS. DONALD TRUMP COMPARISON

### Example 1:
Married Taxpayer, 2 children in daycare, Wages $140,000, $10,000 capital gain (3 years holding), $120,000 S-Corp flow-through cash method ($150,000 AMT preference), $25,000 itemized deductions ($15,000 taxes)

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Tax Rate (Blended)</td>
<td>Tax</td>
<td>Tax Rate (Blended)</td>
<td>Tax</td>
<td>Tax Rate (Blended)</td>
<td>Tax</td>
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<tr>
<td>Wages</td>
<td>$140,000</td>
<td>22%</td>
<td>$30,800</td>
<td>22%</td>
<td>$30,800</td>
<td>17%</td>
<td>$23,800</td>
<td></td>
</tr>
<tr>
<td>Capital Gain</td>
<td>$10,000</td>
<td>18.8%</td>
<td>$1,880</td>
<td>18.8%</td>
<td>$1,880</td>
<td>15.0%</td>
<td>$1,500</td>
<td></td>
</tr>
<tr>
<td>S-Corp flow-thru</td>
<td>$120,000</td>
<td>22%</td>
<td>$26,400</td>
<td>22%</td>
<td>$26,400</td>
<td>15%</td>
<td>$18,000</td>
<td></td>
</tr>
<tr>
<td>DPAD</td>
<td>($10,800)</td>
<td>22%</td>
<td>($2,376)</td>
<td>22%</td>
<td>($2,376)</td>
<td>0%</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Childcare Deduction</td>
<td>$0</td>
<td>22%</td>
<td>$0</td>
<td>22%</td>
<td>$0</td>
<td>17%</td>
<td>($4,420)</td>
<td></td>
</tr>
<tr>
<td>Itemized Deduction</td>
<td>($25,000)</td>
<td>22%</td>
<td>($5,500)</td>
<td>22%</td>
<td>($5,500)</td>
<td>17%</td>
<td>($5,100)</td>
<td></td>
</tr>
<tr>
<td>Personal Exemption</td>
<td>($16,200)</td>
<td>22%</td>
<td>($3,564)</td>
<td>22%</td>
<td>($3,564)</td>
<td>0%</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Taxable Income/Regular Tax</td>
<td>$218,000</td>
<td></td>
<td>$47,640</td>
<td></td>
<td>$47,640</td>
<td></td>
<td>$33,780</td>
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<tr>
<td>AMTI/AMT</td>
<td>$376,200</td>
<td>28%</td>
<td>$105,336</td>
<td>28%</td>
<td>$105,336</td>
<td></td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Regular Tax or AMT</td>
<td></td>
<td></td>
<td>$105,336</td>
<td></td>
<td>$105,336</td>
<td></td>
<td>$33,780</td>
<td></td>
</tr>
</tbody>
</table>
### Example 2: Married Taxpayer, 2 children, Wages $350,000, $30,000 capital gain (3 years holding), $400,000 S-Corp flow-through, $80,000 itemized deductions ($50,000 taxes)

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th></th>
<th>Clinton</th>
<th></th>
<th>Trump</th>
<th></th>
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<tbody>
<tr>
<td></td>
<td>Tax Rate (Blended)</td>
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<td>Wages</td>
<td>$350,000</td>
<td>31%</td>
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<tr>
<td>Capital Gain</td>
<td>$30,000</td>
<td>23.8%</td>
<td>$7,140</td>
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<td>S-Corp flow-thru</td>
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<td>($11,160)</td>
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<td>Itemized Deduction</td>
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<td>($24,800)</td>
<td>31%</td>
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<tr>
<td>Pease limitation</td>
<td>$13,320</td>
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<td>$4,129</td>
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<tr>
<td>Personal Exemption</td>
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<td>31%</td>
<td>$0</td>
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<tr>
<td>Taxable Income/Regular Tax</td>
<td>$677,320</td>
<td>$207,809</td>
<td>$212,549</td>
<td>$142,530</td>
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<tr>
<td>AMTI/AMT</td>
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<tr>
<td>Regular Tax or AMT</td>
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<td>$207,809</td>
<td>$212,549</td>
<td>$142,530</td>
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</tr>
</tbody>
</table>
HILLARY CLINTON VS. DONALD TRUMP COMPARISON

Example 3: Married Taxpayer, 2 children, Wages $1,000,000, $75,000  
capital gain (3 years holding), $1,000,000 S-Corp flow-through (large S-corp)  
$1,000,000 distribution, $225,000 itemized deductions (130,000 taxes)

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Clinton</th>
<th>Trump</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages</td>
<td>$1,000,000</td>
<td>$365,000</td>
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<tr>
<td>Capital Gain</td>
<td>$75,000</td>
<td>$17,850</td>
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<tr>
<td>Dividend Income</td>
<td>$1,000,000</td>
<td>$365,000</td>
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</tr>
<tr>
<td>S-Corp flow-thru</td>
<td>($90,000)</td>
<td>($32,850)</td>
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<tr>
<td>DPAD</td>
<td>($225,000)</td>
<td>($82,125)</td>
<td>28% ($63,000)</td>
</tr>
<tr>
<td>Itemized Deduction</td>
<td>($225,000)</td>
<td>($82,125)</td>
<td>28% ($63,000)</td>
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<tr>
<td>Pease limitation</td>
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<td>Taxable Income/Regular Tax</td>
<td>$1,810,550</td>
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<td>AMTI/AMT</td>
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<td>28% $520,954</td>
<td>28% $520,954</td>
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<tr>
<td>Regular Tax or AMT</td>
<td>$651,326</td>
<td>$682,301</td>
<td>$627,121</td>
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</tbody>
</table>
tax planning
SECTION 179 EXPENSES/BONUS DEPRECIATION

• Bonus Depreciation:
  – 50 % up front deduction on qualified “new” property if the deduction is utilized

• Section 179 Deduction:
  – Up to $500,000 in deduction with $2 million phase-out cost limit

• 15 Year Write Off on Qualified Leasehold Improvements:
  – Building must be > 3 years old
  – Lease may not be related parties
  – Eligible for $250,000 Sec. 179 and 50% bonus depreciation
SECTION 179 EXPENSES/BONUS DEPRECIATION

• What Vehicles Qualify for the full Section 179 Deduction?
  – Heavy “non-SUV” vehicles with accessible cargo area at least 6 feet in interior length
  – Vehicles that can seat nine-plus passengers behind the driver’s seat
  – Cargo van
  – Vehicles with GVWR > 14,000 lbs.

• SUVs or Crossover Vehicles with GVWR above 6,000lbs:
  – Certain vehicles qualify for expensing up to $25,000

• Limits on Passenger Vehicles, Small Trucks, and Vans:
  – No Section 179 deduction allowed
  – Bonus depreciation limited to $8,000; approximately $3,000 annual deduction
  – Not good candidate for like kind exchange trade-in as often sold at a loss for tax

• Exceptions include the following vehicles:
  – Non-personal use vehicles specifically modified for business (i.e. van without seating behind driver, permanent shelving installed, and exterior painted with company’s name)
REPAIR & MAINTENANCE REGULATIONS

Who’s affected: Businesses that have made repairs or improvements to tangible property

- **Routine maintenance safe harbor** - Recurring activities dedicated to keeping property efficiently operating can be expensed

- **Small business safe harbor** - For buildings with original cost < $1 million, qualified small businesses may elect to deduct the lesser of $10,000 or 2% of the adjusted basis of the property for repairs, maintenance, improvements and similar activities

- **Partial disposition write-off** - Available following building renovation or refurbishment

- **De Minimis safe harbor election** - Election to deduct any tangible property purchase up to $5,000 if they have a written policy in place for their books and have an audited financial statement...safe harbor = $2,500 without audited financials
DOMESTIC PRODUCTION ACTIVITY DEDUCTION

What is the Domestic Production Activities Deduction?:
- Monetary incentive to U.S. Companies
- Competitive advantage (Domestic & Abroad)
- 9% deduction against income for a qualified company

Domestic Production Gross Receipts in more depth:
- Any lease rental, license, sale, or exchange or other disposition of qualified production property, qualified film, electric, natural gas, or potable water
- Construction performed in the U.S.
- Engineering or architectural services performed in the U.S. for construction projects
- 5% Deminimus Test
DPAD - IMPACT ON BONUSES

Scenario: Owner of S-Corporation with $10 million in revenue needs wants to take $100,000 from the company? He previously drew a $250,000 salary and is in 33% tax bracket. Should he take a bonus or distribution?

<table>
<thead>
<tr>
<th></th>
<th>Bonus</th>
<th>Distribution</th>
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<tbody>
<tr>
<td>Gross</td>
<td>$100,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>Cost: 3.8% Medicare</td>
<td>($3,800)</td>
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<tr>
<td>Cost: 2.85% Sting Tax</td>
<td></td>
<td>($2,850)</td>
</tr>
<tr>
<td>Cost: 3% DPAD</td>
<td>($3,000)</td>
<td></td>
</tr>
<tr>
<td>Net:</td>
<td>$93,200</td>
<td>$97,150</td>
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</tbody>
</table>
R&D TAX CREDIT FOR CONTRACTORS

The R&D tax credit is available to taxpayers who incur incremental expenses for qualified research activities conducted.

Big Changes in 2016 make more companies eligible.

• Examples of some qualifying Activities that may be performed:
  - Exploring means and methods and construction techniques
  - Preparing structure and facility design for constructability
  - Developing and improving construction equipment development
  - Designing LEED/green initiatives
  - Designing HVAC systems
  - Designing electrical system design
  - Utilizing Building Information Modeling (BIM) for sub-system coordination
  - Analyzing the functions of a design directed at improving performance, reliability, quality, safety and/or life cycle costs
  - Improving mechanical equipment sizing

• Four types of qualified research expenses are the catalyst of the credit:
  1) Wages paid to employees with qualified services
  2) Supplies used and consumed in the R&D process
  3) Contract research expenses (when someone other than the employee or the taxpayer performs a QRA on behalf of taxpayers, regardless of the success of the research)
  4) Basic research payments made to qualified educational institutions from various scientific research organizations
ENERGY EFFICIENT COMMERCIAL BUILDING DEDUCTION

• Tax deduction of up to $1.80/square foot to those investing in energy efficient improvements placed in service

• Require comparison to Energy Efficient Standards (ASHRAE Standard 90.1-2001) and must be certified by a qualified appraiser

• Eligible improvements must reduce energy use for any of the following categories:
  – Building Envelope
  – HVAC
  – Interior lighting systems

• Wide range of improvements qualify:
  – Simple lighting retrofit
  – Full scale construction project

• Contractors and architects are eligible to receive this $1.80/square foot for any government building they design, even though they have no basis in the property
ENERGY EFFICIENT HOME BUILDERS CREDIT

• The federal Energy Policy Act of 2005 established tax credits of up to $2,000 for builders of all new energy-efficient homes, including manufactured homes

• Available through 12/31/16

• Energy Saving Requirements:
  – Site-built homes qualify for a $2,000 credit
  – Must be certified to reduce heating and cooling energy consumption by 50% relative to the International Energy Conservation Code (IECC) 2006 and Meet minimum efficiency standards established by the Department of Energy
  – Building envelope component improvements must account for at least one-fifth of the reduction in energy consumption
CONSTRUCTION ACCOUNTING METHODS

Common Accounting Methods available to Contractors

• Percentage of Completion Method:
  – Income from the contract to be reported proportionately over the life of the contract as costs are incurred

• Cash Method:
  – Income recognition upon the receipt of cash
  – Deduction allowed upon payment of cash

• Completed Contract Method:
  – Income recognized in the year the contract is completed

• Accrual Method:
  – Primary difference from POC - No WIP adjustments for over/underbillings

• POC/Deferred Retainage:
  – Recomputed POC as if retainage payable not an incurred cost until all events satisfied to collect
PERCENTAGE OF COMPLETION EXCEPTIONS

General rule: Long term contracts must be determined under the POC method

• What is a long-term contract?:
  – Manufacturer, building, installation or construction of real property
    Not completed within the taxable year entered into

• Election to Use 10-percent method:
  – GP Deferral on contracts not yet 10% complete at year end

• “Short-term” Contracts:
  – Contracts entered into and completed during same tax year Inventory as material
    producing income factor may prevent use of full cash method; hybrid method
    may apply

• Service Contracts:
  – Time and Material contracts (i.e., repairs and maintenance)

• Small Contractor Exemption:
  – Average gross receipts prior 3 years < $10 million
  – Contract estimated to be completed within 2 years
PERCENTAGE OF COMPLETION EXCEPTIONS

HOME CONSTRUCTION CONTRACT

• 80% of estimated total costs are expected to be attributable to dwelling units contained in buildings containing 4 or fewer dwelling units & improvements to real property directly related to such dwelling units.

RESIDENTIAL CONSTRUCTION CONTRACT

• Same definition as home construction except that there is no limit on the number of dwelling units in the building.
• Taxpayers engaged in residential contracts may report 30% of the gross profit using their exempt contract method.
• AMT adjustment may apply.
• Dormitories, assisted living facilities, nursing homes, and prisons could all be considered dwelling units, but not hotels/motels.
CASH BASIS PLANNING

Pay down Accounts Payable (Construction companies subject to AMT on long-term contracts should focus first on paying off A/P related to short-term contracts and SG&A prior to A/P related to long-term contracts)

- Utilize credit card or line of credit to pay Accounts Payable
- Delay final month invoice
- Pay bonuses to employees prior to year-end
- Accrue profit sharing (pay by extended due date)
- Prepay state tax payments or other expenditures
- Do not lose sight of AMT implications on long-term contracts
- May make sense to employ reverse strategy during down economy
INVESTMENT PLANNING

• Avoid short-term capital gains, if possible:
  – Taxed as high as 55% (fed & state)

• Harvesting capital losses:
  – Should make sound investment sense
  – Avoid wash sale rules
  – Losses can offset up to $3,000 of ordinary income
  – Indefinite carryforward

• Take advantage of 0% cap gain rates if possible:
  – Must have regular tax rate of 15% or lower

• Utilize children’s lower tax brackets:
  – Stay below the kiddie tax thresholds
CHARITABLE PLANNING

• Consider donation of appreciated stock rather than cash:
  – Avoid capital gain tax on appreciation
  – Charitable deduction = FMV
  – Do not donate depreciated stock!

• If age 70 ½, consider arranging a charitable gift directly from the IRA:
  – Satisfies RMD requirement

• Consider Charitable Planning Vehicle (Donor Advised Funds, Charitable
  Remainder Trusts)

• S-Corporation owners that contribute appreciated property may take FMV
deduction while reducing basis by cost

• Invest in a Community Development Corporation (CDC):
  – Provides flexible working capital that can be used to seed new programs, fill
    funding gaps and leverage other resources
  – Receive 50% refundable MA credit along with federal deduction
RETIREMENT SAVINGS

FOR EMPLOYEES - MAXIMIZE 401(K) RETIREMENT CONTRIBUTION

- 2016: $18,000 limit; $24,000 > Age 50
- Take Advantage of company match (at a minimum)
- Save up to 50% in current year taxes
- Potentially reduces the amount of income subject to Net Investment Income Tax

IRA & ROTH IRA CONTRIBUTIONS

- 2016: $5,500 limit; $6,500 > Age 50
- Deductibility of IRA contribution phased out at AGI or $71,000 (S & HoH) & $118,000 (MFJ) if covered by employer plan
- If spouse not covered by plan, deductibility phased out at $194,000
- Non-deductible contributions still allowed (and encouraged)
- Great idea for teenagers to start contributing
GIFTING

CHOOSING GIFTS WISELY

- Gift property with the greatest future appreciation potential to minimize estate taxes
- Gift property that has appreciated minimally since taking ownership to minimize beneficiary’s income tax
- Direct gifts to educational institutions or medical facilities on behalf of a student or patient do not count toward the annual exclusion
- Contribute up to $70,000 (5 years of annual exclusions) into a 529 plan on behalf of a future student
- Gifting beyond the lifetime exclusion and paying gift tax can save the family tax dollars
- Utilize trusts for tax savings and to preserve control
BIO’S

JUSTIN AMICO, CPA
Assurance Partner

EXPERIENCE

Justin has over 20 years of experience in public accounting concentrated in the construction industry. Justin joined the Boston office of BDO in May 2016 as part of the combination of Feeley & Driscoll, P.C. and is an Assurance Partner.

He provides accounting, tax, and consulting services to contractors and suppliers. Justin has focused his expertise in financial and operational analysis and is a Certified Construction Industry Financial Professional (CCIFP). He also specializes in self-insured groups and unions.

PROFESSIONAL AFFILIATIONS

Certified Public Accountant - Massachusetts, Rhode Island & Connecticut
American Institute of Certified Public Accountants
Massachusetts Society of Certified Public Accountants
Associated Subcontractors of Massachusetts
Associated Builders of Massachusetts
Associated General Contractors of Massachusetts
Construction Financial Management Association

EDUCATION

MBA, Concentration in Taxation, Bentley University
MS, Taxation, Bentley University
B.S., Accounting, Bentley University
JEFFREY T. ROGERS, CPA
Tax Partner

EXPERIENCE

Jeffrey has over 10 years of public accounting experience providing tax services to businesses and individuals. Jeffrey joined the Boston office of BDO in May 2016 as part of the combination with Feeley & Driscoll, P.C. and is a Tax Partner.

He specializes in individual and multi-state corporate and partnership taxation providing compliance, planning, and business consulting services. He represents clients under examination on a wide range of issues. Jeffrey focuses much of his time in the construction, non-profit, and healthcare industries.

PROFESSIONAL AFFILIATIONS

American Institute of Certified Public Accountants
Massachusetts Society of Certified Public Accountants

EDUCATION

MS in Taxation, Bentley University
B.S., Business Administration, Merrimack College