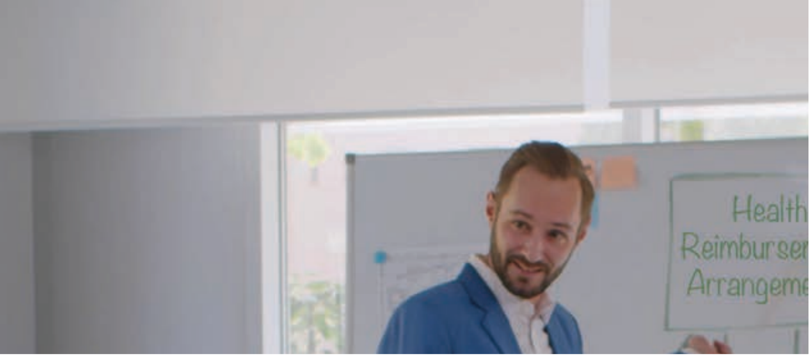

CONTRACTOR

SEPTEMBER/OCTOBER 2023

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CHECK OUT THE MANY VARIETIES OF HRAS

Construction businesses need to offer robust employee benefits, just like most any other type of employer. When it comes to health care benefits, several types of tax-advantaged Health Reimbursement Arrangements (HRAs) are available that can cost-effectively supplement traditional group coverage or even employees' own individually bought policies.

Excepted benefit HRAs

Among the newest alternatives on the market are excepted benefit HRAs (EBHRAs). Employers of all sizes can offer one of these plans as long as they also offer a traditional group health plan that provides "minimum essential coverage" as defined under the Affordable Care Act (ACA). Employees needn't enroll in the group plan to participate in the EBHRA.

As the employer, you get to decide which expenses to cover. Participants can then use the EBHRA to obtain tax-free reimbursement for qualified medical expenses — which may include dental, vision and short-term medical insurance, co-insurance, and co-payments. They can't obtain tax-free reimbursement, however, for individual plan premiums or group health plan premiums.

> With all HRAs, the employer owns the plan. So, contributions aren't subject to payroll taxes.

For 2023, you can contribute up to $1,950 to an EBHRA. As with all HRAs, the employer owns the plan. So, contributions aren't subject to payroll taxes, and you can decide whether to keep unused amounts or roll them over following year-end.

Group coverage HRAs

Sometimes referred to as integrated HRAs, group coverage HRAs (GCHRAs) require an employer to offer traditional group coverage. However, in this case, participants must be enrolled in that group plan. Employers that offer GCHRAs typically sponsor high-deductible health plans (HDHPs), which generally extend less coverage and therefore cost less.

The GCHRA helps cover costs not covered by the

WATCH OUT FOR EMPLOYER MANDATE PENALTIES

The Affordable Care Act's (ACA's) employer mandate requires organizations with 50 or more full-time or full-time equivalent employees to offer minimum essential coverage that's "affordable" and provides "minimum value" to at least 95% of full-time employees.

According to the Construction Management Association of America, construction is among the industries most at risk for hefty noncompliance penalties. One common problem is determining to whom you must offer coverage. For ACA purposes, a full-time employee works an average of 30 hours per week — not 40 — or 130 hours per month.

Let's say you don't offer an employee coverage, perhaps because you consider the worker a part-timer. If that individual obtains insurance through a Health Insurance Marketplace (commonly called an "exchange"), you may incur a penalty of $2,880 per full-time employee less the first 30 employees. The penalty for offering coverage that isn't affordable or doesn't provide minimum value is $4,320 for each full-time employee who receives a premium tax credit.

Construction businesses with seasonal workers or high turnover are particularly vulnerable to problems tracking full-time employees.

HDHP — including deductibles, co-insurance, co-payments and qualified medical expenses. Again, premiums are excluded.

You can determine which expenses to cover as well as how much you want to contribute to a GCHRA. Contributions aren't taxable to participants. Most employers establish a maximum monthly reimbursement amount and roll over unused funds every month.

Qualified small employer HRAs

This plan type is an option for employers with fewer than 50 full-time employees that don't offer group health coverage. Participants must have their own individual policies with minimum essential coverage. If they don't, reimbursements will be taxable for them. Qualified small employer HRAs (QSEHRAs) cover qualified medical expenses, including the premiums for individual coverage.

You can decide what to cover, but you must offer a QSEHRA on the same terms to all full-time employees. The reimbursement amounts can vary based only on the age and number of individuals covered.

For 2023, you can contribute up to $5,850 for an employee-only QSEHRA or $11,800 for an employee-plus-household plan. If an employee doesn't submit a reimbursement claim, you keep the money. Or you can roll it over from year to year while the employee still works for you.

Individual coverage HRAs

As with QSEHRAs, individual coverage HRAs (ICHRAs) require participants to have individual health coverage to receive tax-free reimbursements. But ICHRAs are available to any employer with at least one employee, excluding a self-employed owner or a spouse.

You can vary the eligibility criteria by employee class — for example, full time vs. part time. However, you generally must offer an ICHRA on the same terms to all employees in a class. No limits apply to contributions. That means you can contribute as much or as little as you like, so long as class members receive the same contribution.

Note that both ICHRAs and QSEHRAs can affect a participant's eligibility for the premium tax credit that subsidizes individual health insurance premiums for coverage bought on a public Health Insurance Marketplace (commonly called an "exchange"). The credits aren't available to employees covered by or offered an "affordable" ICHRA as defined under the ACA. So, if an employee has a QSEHRA that's considered affordable for a month, no credit is allowed that month. If a QSEHRA isn't affordable for one or more months, the employee may be eligible for reduced credits.

Finding the right fit

Bear in mind that an HRA of any type isn't an account from which participants can withdraw funds to pay medical expenses. They must first incur an expense then have it reimbursed. Anyone who uses up the allocated HRA funds before year-end will have to cover any subsequent medical expenses out of pocket. Your CPA can be an invaluable partner in finding a health plan, whether an HRA or something else, that's the right fit for your construction business. ■

CALCULATING HOW MUCH YOUR EQUIPMENT REALLY COSTS

Do you know how much your construction equipment really costs? Let's explore some of the analytical concepts involved in calculating equipment costs and setting billing rates to recoup those dollars.

Cost categories

Tracking equipment costs allows you to evaluate a machine's operating performance more accurately. Costs are usually divided into two categories.

First, there are ownership costs. These are incurred regardless of whether the equipment is used in production. The costs include the purchase price (including any applicable interest), taxes, storage and depreciation. A major repair, such as overhauling a blown engine, may fall under ownership costs if you budget in advance for such an emergency.

Second, there are operating costs. Any expenses incurred when using the equipment, such as fuel, labor and minor repairs, are operating costs. They vary according to how much the equipment is used. If the equipment is subjected to harder-than-average use or your fleet is aging, you may need to factor in more frequent preventive maintenance.

Depreciation basics

Depreciation is the decrease in a machine's value over time because of age or technological obsolescence. It's typically calculated using a straight-line method for determining equipment billing rates and financial reporting.

The salvage value of a machine — the value you expect it to have at its useful life's end — is subtracted from the purchase price and divided by its total estimated useful life. For example, if you buy a $50,000 piece of equipment and expect its salvage value to be $2,000 at the end of a seven-year useful life, the annual straight-line depreciation amount would be $6,857 [($50,000 – $2,000) ÷ 7].

The Modified Accelerated Cost Recovery System, used to figure depreciation deductions for tax purposes, allows for a greater amount of depreciation expense and tax savings in the early years of an asset's life. So, if you purchase the same piece of equipment using a seven-year life, depreciation for the first year would be $7,143 ($50,000 ÷ 7). For the second year, it would be $12,245 {[($50,000 - $7,143) ÷ 7] x 2}. Note that salvage value isn't considered for tax purposes.

Billing rates

Equipment costs should be charged to each contract using a method that reflects the extent to which the equipment was used on that job. A common approach is to develop internal billing rates based on the actual cost of owning and operating the equipment. You already know what the equipment will cost, and the dealer can provide other pertinent information — such as estimated costs for repair, taxes, insurance and fuel, as well as estimated useful life.

When calculating equipment costs, the purchase price and interest are totaled and then divided by the estimated years in service to get an annual acquisition cost. Next, the costs for repairs, taxes, insurance and fuel are totaled and added to that annual acquisition cost. The total of those two numbers represents your annual costs. Finally, the annual costs are divided by the number of hours you expect to use the equipment in a typical year. The result is the average rate you'll need to charge per hour to cover your costs.

Another option is to charge for equipment use based on rates published in industry cost guides, such as the Rental Rate Blue Book, an online database product marketed by EquipmentWatch, or the U.S. Army Corps of Engineers' *Construction Equipment Ownership and Operating Expense Schedule*. You'll still charge hourly, daily, weekly or monthly amounts for use of specific pieces of equipment, but you charge industry rates rather than your own.

Generally, your internal billing rate is the most accurate approach because it uses your actual equipment costs rather than those general to the industry. Whatever approach (or approaches) you use, revisit your billing rate at least annually to ensure it's in line with your actual costs.

Asset management

To get the most from any asset, you've got to know its true cost and how to recoup that money through proper billing. Your CPA can help you set up an accurate system for calculating equipment costs and setting billing rates. ■

RISK MANAGEMENT: 6 COMMON CAUSES OF CONSTRUCTION CLAIMS

How does a construction business mitigate the dangers that threaten its profitability? Put a name to them! The first step in risk management is to identify your company's biggest threats so you can implement preventive measures or at least minimize the damage if they occur. Here are six of the most common causes of construction claims:

1. Design errors or omissions. Inaccurate or incomplete design documents can lead to errors during construction, resulting in rework, delays and cost overruns. It's important to conduct comprehensive design reviews before construction begins, which can be a challenging task.

To save time and money, or to meet federal funding deadlines, project owners may allow construction to proceed before the design, or due diligence regarding that design, is complete. For example, as ground is broken, an owner might have not yet established all necessary rights of way or secured all required licenses. This can lead to design deficiencies, scope changes and compliance delays. One way to streamline design approval is to leverage cloud-based project management software to ensure everyone is on the same page and all boxes are checked.

2. Scope changes and change orders. Changes in design or project scope during construction can lead to additional costs, delays and disagreements. Early identification of potential deviations in scope or inevitable changes can help mitigate these issues. Also critical is having a sound change-order process for getting approval and submitting charges for extra work as quickly as possible. Clearly communicate your company's policies and procedures regarding "scope creep" and change orders to project owners.

To minimize disruptions or delays, engage in careful preconstruction planning, mindful staffing and realistic scheduling.

3. Disrupted or delayed projects. Unforeseen site conditions, bad weather, labor disputes and sluggish supply chains can lead to claims for unreasonably slow work or unacceptably high costs. To minimize disruptions or delays, engage in careful preconstruction planning, mindful staffing and realistic scheduling. Put contingency plans in place. Invest in finding, training and retaining skilled project managers who can implement industry best practices.

4. Construction defects or poor workmanship. Defects or substandard work can lead to claims for repair costs, rework or property damage. Conduct formal inspections as well as regular quality control checks to identify and rectify construction defects or suboptimal work. Proper training and supervision of personnel will also help ensure compliance with specifications and applicable building codes.

5. Contractual issues and payment disputes. Disagreements over contractual obligations, payment terms or nonperformance can result in claims for breach of contract, delays or cost overruns. If necessary, work with an attorney to ensure your contracts clearly define scope, responsibilities, deliverables, milestones, payment schedules and change orders. To avoid litigation, many of today's contracts also include language regarding dispute resolution methods such as mediation or arbitration. In addition, maintain accurate documentation — including daily logs, progress reports, communication records and support for change orders.

6. Safety incidents and accidents. As you're no doubt aware, perhaps the biggest drivers of construction claims are inadequate safety practices and failure to comply with safety regulations. Such shortcomings can lead to high workers' compensation premiums, fines, legal action or, worst of all, serious injuries or fatalities. Establish a culture of safe practices and be sure to regularly provide up-to-date, comprehensive safety training. ■

ARE YOU READY TO BE A CONSTRUCTION MANAGER AT RISK?

Alternate project delivery methods are catching on in today's construction industry — especially with federal infrastructure projects arriving. Although it might sound like a dicey way to do business, Construction Manager at Risk (CMAR) is one such method.

Leader of the job

Also referred to as Construction Manager as Constructor, CMAR engages the contractor early in the project and typically makes the construction company in question responsible for delivering the job at a guaranteed maximum price (GMP). Any costs above that price are absorbed by the contractor — that's the "at risk" part.

Also true to its name, CMAR establishes the contractor as construction manager during the design and planning phases. This means working with the project owner and designer to develop the budget and schedule. The contractor also reviews the building plans, prepares initial schedules, advises on the availability of materials and estimates costs as the design takes shape. During construction, the contractor acts as general contractor.

Different from design-build

CMAR is similar to the design-build delivery method, with one big difference. The contractor doesn't undertake the design obligation and then subcontract it out to a consultant. Instead, the project owner offers two contracts: a design contract to an architect and the CMAR contract to the contractor.

During the preconstruction phase, the contractor isn't at risk. At this point, there's no agreement to build anything, and the design is typically not completed. After the contractor makes a proposal and the owner accepts it, those terms are added as an amendment to the CMAR agreement, making the contractor responsible for delivering the project.

Benefits and risks

Construction companies can benefit from a CMAR contract in several ways:

- The GMP is a fixed price that represents a clear amount of revenue that the contractor can depend on.
- Early involvement allows the contractor to provide design input and ensure the job is feasible, lessening the chances of delays and disputes.
- The contractor is the single point of contact for the owner, which helps streamline communication and cultivate a positive relationship.

Naturally, there are risks. As mentioned, the contractor is on the hook for costs beyond the GMP. So, it's critical to estimate costs accurately and be on guard for unanticipated events that could increase expenses. Also, sometimes the other parties to a CMAR contract bring in the contractor late, which can undermine the construction company's ability to weigh in on the design.

A successful alternative

CMAR has been so successful in keeping projects on schedule and within budget that the U.S. government's General Services Administration now allows federal agencies to consider it as an option. If you encounter a project following this delivery method, be sure you know what you're getting into. ■

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About Wouch, Maloney & Co., LLP

Wouch, Maloney & Co., LLP is a regional certified public accounting firm with offices in Horsham and Philadelphia, Pennsylvania and Bonita Springs, Florida. The firm has provided closely held business and individual clients with a wide array of accounting services for over 30 years. Wouch, Maloney & Co.'s domestic, multi-state and international clients reflect a broad range of industries from real estate and construction to manufacturing, wholesale and professional service. The firm offers a comprehensive group of services including tax, audit and accounting, business consulting, estate planning, business valuation, litigation support and forensic accounting.

Serving the Construction Industry

Wouch, Maloney & Co., LLP prides itself on its niche practice in the construction industry. The majority of our clients are involved in construction and we are adept at recognizing and solving problems common to that industry. For over thirty years, we have represented contractors along with commercial and home builders in Pennsylvania, New Jersey and Florida.

- We develop **relationships with lenders and bonding agents** and understand how to present your financial picture in their preferred format.
- We assist you in **keeping a close eye on debt, cash flow, profit margins** and other measures of financial health.
- We prepare **contracts in progress** schedules that management can understand which clearly illustrate gross profit, job costing and over/under billings per job.
- We have highly trained staff with **expertise in construction accounting** who are detail oriented, but who do not lose sight of the larger goal which is to provide our clients with quality services to meet their many financial needs.

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