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Dimensions
A CPA's Report for the Construction Industry Winter 2022

Future Work

Meeting the Challenges of a Changing Workforce

The U.S. workforce has undergone drastic changes since the pandemic hit nearly two years ago—and the construction and contracting industries haven't been immune to them.

A number of white-collar employees started working from home when the pandemic took hold, and a lot of them still haven't returned to the office. Many of these employees now say they don't want to return to an office environment even after the pandemic ends.

Changing demographic trends are also impacting the industry. Construction and contracting have traditionally been dominated by white males, but they will become a smaller percentage of the overall population in the years to come, according to demographers.

Help Wanted in Construction Firms

You can't walk far in most U.S. cities without seeing "Help wanted" signs on the doors and windows of retail businesses. Many construction and contracting firms are also facing significant hiring challenges.

During the short time that the construction industry was shut down in 2020 due to the pandemic, the sector lost more than one million workers. As of June 2021, the industry had recouped nearly 80 percent of its workforce but was still down almost 240,000 employees from pre-pandemic levels.

According to data from Associated Builders and Contractors, construction firms will need to hire nearly

Continued on page 3

Employee Retention Credit

It's Not Too Late to Claim This Valuable Tax Credit

The CARES Act that was signed into law in early 2020 included a special tax credit designed to encourage businesses to retain employees during the coronavirus pandemic. Originally scheduled to expire at the end of 2020, the Employee Retention Credit (ERC) has been extended through the end of 2021.

This means that it's not too late for your contracting business to potentially take advantage of this valuable tax credit.

Extended Expiration Date and Expanded Eligibility

The extension of the ERC was contained in the American Rescue Plan Act (ARPA), which became effective in March 2021. In addition to extending the expiration date, the ARPA also expanded the eligibility criteria for claiming the credit.

Originally, the ERC was available to businesses that met one of two conditions: 1) Their operations were partially or fully suspended due to a COVID-19-related government shutdown order, or 2) their gross receipts fell by more than 50 percent compared to the same quarter of the prior year.

The ARPA added new qualification criteria by designating recovery startup businesses as eligible for the credit. These are businesses that began operations after February 15, 2020 and have average annual gross receipts of $1 million or less. Note that the amount of the credit for recovery startup businesses is limited to $50,000 per calendar quarter and is applicable for only the third and fourth quarters of 2021.

More ERC Changes

The amount of the ERC was originally 50 percent of qualified wages up to $10,000 annually per eligible employee. This was increased to 70 percent of qualified wages paid between January 1, 2020 and June 30, 2020 by the Consolidated Appropriations Act (CAA), which was enacted at the end of 2020.

The CAA also raised the per-employee limit from $10,000 annually to $10,000 per quarter, which effectively raised the maximum credit to $7,000 per quarter, or $28,000 per year, for each eligible employee. In addition, the CAA lowered the gross receipt reduction criteria from 50 percent to 20 percent, which made more businesses eligible for the credit. Businesses can compare gross receipts to the same quarter in 2020 or 2019 in order to determine qualification.

The CAA also eliminated the original CARES Act provision that barred Paycheck Protection Program (PPP) borrowers from claiming the ERC. These businesses now qualify for the credit for qualified wages that aren't paid using forgiven PPP funds.

More ARPA Changes

The ARPA added some changes to the ERC that apply only to the third and fourth quarter of 2021. One of these is the application of the credit against the employer's share of Medicare taxes instead of Social Security taxes. Excess credits will continue to be refundable during this time.

In addition, the ARPA adds a new category of businesses that qualify for extra financial relief. Dubbed "severely financially distressed employers," these are businesses with less than 10 percent of gross receipts in 2021 compared to the same period in 2019. Such businesses can count any wages paid to an employee during any calendar quarter as qualified wages for purposes of the ERC, regardless of the business's size.

The ARPA also extends the statute of limitations for the IRS to evaluate ERC claims from the usual three years to five years from the date the original tax return (for the calendar quarter used for the credit calculation) is filed.

Additional IRS Guidance

In March, the IRS issued additional ERC guidance to help businesses determine if their operations had been partially suspended due to a COVID-19-related government shutdown order. Originally, the IRS had stated that "more than a nominal portion" of operations had to be suspended for a business to qualify for the credit.

IRS Notice 2021-20 offers more detailed criteria for making this determination. It specifies that the criteria are met when:

- Gross receipts from the suspended operation are 10 percent or more of total gross receipts.
- The hours of service performed by employees in the suspended operations are 10 percent or more of the total hours of service.
- Modifications to operations result in a 10 percent or greater reduction in the business's ability to provide goods or services.

Determining eligibility for the ERC and calculating the right credit amount can be complex. Be sure to speak with your financial and tax advisors for guidance in your situation.

Give us a call if you have questions about qualification criteria for the Employee Retention Credit.

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half-a-million new workers in 2021 and another one million workers over the next two years to keep up with anticipated demand.

The labor shortage is even worse in some trade specialties. For example, nearly nine out of 10 contractors are currently having difficulty hiring craft workers, according to a workforce survey recently conducted by the Associated General Contractors of America. A year ago, just 52 percent of contractors reported having this difficulty.

Ramping Up Technology

Some construction firms are trying to overcome worker shortages by ramping up technology to boost efficiency. For example, more than half (57 percent) of contractors in the Associated General Contractors of America survey said they increased their rate of technology adoption over the past year. A similar percentage said they expect their rate of technology adoption to further increase over the next year.

Examples of this technology adoption include project management and estimating software, document management systems, drones and robotics, and additive manufacturing.

Making matters worse, all of this is occurring during a time when the construction industry is booming, especially the residential sector. New home construction, along with home renovations and improvements, are surging due to the red-hot housing market and a severe lack of housing inventory.

At the same time, the ongoing pandemic continues to pose unique hiring challenges to construction and contracting firms. On-campus recruiting and job fairs are still limited, for example, and some individuals remain hesitant to return to a face-to-face work environment, whether in the office or on the job site.

Meeting the Challenges

What are some things your firm can do to meet these staffing challenges? Here are five ideas to consider:

1. Make sure your compensation is competitive. In most regions of the country, employees are in the driver's seat when it comes to negotiating salaries and benefits. This means that your compensation needs to be competitive if not better than other contractors in your area.

Conduct a compensation survey to find out what your competitors are offering in the way of salary or hourly wage, fringe benefits, and sign-on bonuses. Then set your compensation a little bit higher than the average so your firm stands out from others. Make sure potential new hires (and existing employees, for that matter) understand the value of the total compensation package beyond just the salary or hourly wage.

2. Allow remote work flexibility for some employees. As noted previously, some employees who have gotten a taste of remote work don't want to go back to the old model of commuting and working in a traditional office. If you don't adapt your policies to allow office and administrative employees to work remotely at least a couple of days a week, they will find a company that will.

3. Get creative with benefits. Many younger employees place a high value on non-financial benefits, especially generous paid time off (PTO) policies. In response, some firms are offering PTO-free Fridays in which employees can take select Fridays off without it counting against their PTO.

Other firms are taking this a step further by offering unlimited PTO to salaried office staff. Essentially, these employees are allowed to take time off whenever they want (within reason) without having to keep track of it. This might not work for every business, but it's something to consider depending on the makeup of your workforce and the severity of your hiring challenges.

4. Offer opportunities for career advancement. One of the best ways to retain top employees is to offer plenty of opportunities for them to advance their careers in your organization. Whenever possible, promote employees from within your company to management and leadership positions instead of hiring managers from outside.

Also, be willing to invest in the training required to prepare employees for advancement opportunities. This shows employees that you're committed to their success and want them to remain with you for the long term. New technology tools like those listed previously present a great opportunity for employees to learn new skills and possibly advance their careers with your firm.

5. Reach out proactively to women and minorities. With white males making up a smaller proportion of the overall population, it will be critical for construction firms to actively recruit more women and minorities. Try to structure your recruiting efforts and pitch in ways that will appeal to these demographic segments.

Start Planning Now

Now is the time to plan for how your firm will meet the workforce challenges of the future. Talk to your managers about how you can implement these and other ideas at your contracting business.

Please contact us if you'd like to talk about meeting your specific workforce challenges.

We use our expertise to help our clients grow and prosper.

Dermody, Burke & Brown, CPAs, LLC

Our mission is to empower our clients and our people to "live well" by providing valued advice and innovative solutions in an atmosphere that is professional, enjoyable and community minded.

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Accounting Treatment of Forgiven PPP Loans

Millions of businesses took advantage of the Paycheck Protection Program (PPP) to obtain forgivable loans to meet payroll, mortgage interest, rent, and utility expenses during the height of the pandemic. Now that this program has ended, some of these businesses have questions about the accounting treatment of their forgiven PPP loans.

Originally, businesses were not allowed to deduct any expenses that were paid with forgiven PPP loan funds. However, these funds would not be considered taxable income to the business.

The Consolidated Appropriations Act (CAA) that was signed into law at the end of 2020 changed these provisions. More specifically, Section 276 of the Act allows businesses to deduct expenses that are paid with forgiven PPP loan funds. This section also states that no basis increase shall be denied due to the exclusion of forgiven PPP loan funds from gross income. A tax-exempt income event usually creates basis.

According to Section 276, S corps and partnerships should treat the exclusion of forgiven PPP loan funds from gross income as tax-exempt income for tax reporting purposes. Shareholders and partners will increase their tax basis in the S corp or partnership based on their share of the tax-exempt income.

Things can get complicated when you consider that the period in which qualifying expenses were paid does not necessarily coincide with the period for obtaining PPP loan forgiveness. The proper period for the inclusion of tax-exempt income is when the borrower pays or incurs qualifying expenses during the covered forgiveness period.

Proper tax accounting for forgivable PPP loans is critical, especially if your business is ever reviewed by the Small Business Administration (SBA). Talk to your accounting professional about the details of PPP loan forgiveness accounting for your business.

Let us know if you have questions about your particular situation.