

PERSPECTIVES ON THE CONSTRUCTION INDUSTRY

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Communication Innovation

15 Corporate Circle, Albany, NY 12203
800-525-4237/Fax 518-862-3399

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Controlling Health-care Costs

Contractors have always had plenty to worry about, but their number one concern today centers on paying for employee health care. In fact, a recent survey* found that 71% of contractors said that the rise in the cost of health insurance premiums is their top challenge.

Contractors want to keep offering health insurance since it's the benefit employees value most. Unfortunately, it's also the benefit that has seen the steepest rise in costs over the last decade.

What can you do if you want to continue offering health insurance to your employees but want to lessen the negative effect on your bottom line?

Increase Copay Amounts

Your employees will most likely understand that paying an extra five or ten dollars as part of their copay is preferable to shouldering 100% of the cost of a medical visit. By increasing the copay, you pass along the greatest burden of increased costs to employees who use the system most.

Consider Another Provider

If you haven't already done so, have your staff research costs and coverage available through all the health-care providers in your region. You may find a provider that has done a better job of containing cost increases than your current provider.

Create a Wellness Program

Designed to encourage healthy behavior among employees, workplace wellness programs are being embraced by employers eager to reduce health-care costs. These programs operate on the premise that healthier employee lifestyles translate into lower rates of illness and fewer doctor and hospital visits. A report** by the U.S. Department of Health and Human Services shows a median of \$3.11 in savings for every dollar spent on implementing a wellness program.

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Wellness programs can offer free on-site flu shots, blood pressure checkups, and weight loss and stop-smoking sessions. Programs can incorporate employee education that focuses on health risks and preventable diseases, as well as health risk assessments that evaluate employees' overall health based on lifestyle and personal and family medical history.

Consider Offering a Health Savings Account

Health savings accounts (HSAs) are something new in the health-care field. Though they are still evolving and largely untested, these tax-favored accounts

could potentially help your business control spending on health care.

HSAs must be used in conjunction with a high deductible health plan, generally defined as a plan with a minimum deductible of \$1,100 (\$2,200 for family coverage) that limits annual out-of-pocket expenses (other than for premiums) to no more than \$5,500 (\$11,000 for family coverage). As an employer, you can fund all or part of your employees' HSAs on a tax deductible basis. Employees may deduct their contributions. For 2007, the HSA contribution limit is generally \$2,850

for an employee with individual coverage (\$5,650 with family coverage). These limits will be adjusted for inflation in future years.

Money set aside in an HSA may be used tax free to pay qualified medical expenses that aren't covered by insurance, such as doctors' fees, hospital services, dental and vision care expenses, and prescriptions, among others. Any money not spent during the year is rolled over for use in subsequent years. ✓

* CFMA 2005 Construction Industry Annual Financial Survey.

** "Prevention Makes Common 'Cents,'" United States Department of Health and Human Services, September 2003.

New Reporting Rules May Impact Some Contractors

If your contracting business employs 100 or more employees *or* has federal government contracts valued at \$50,000 or more and 50 or more employees, you'll soon have some additional paperwork to fill out for the Equal Employment Opportunity Commission (EEOC). A new rule means that you'll have to include additional details in the EEO-1 report you must file every year with the EEOC.

As it stands, the EEO-1 report requires employers to provide a count of their work force by job category and then by ethnicity, race, and gender. The revised EEO-1 requires employers to ask their employees to self-identify by ethnicity and race. It also changes several of the race and ethnic categories.

Changes in the Race and Ethnic Categories

The changes in the revised EEO-1 include:

- ✓ The addition of a new category entitled "Two or more races"
- ✓ The renaming of "Black" as "Black or African American"

- ✓ The renaming of "Hispanic" as "Hispanic or Latino"
- ✓ The division of "Asian or Pacific Islander" into two separate categories: "Asian" and "Native Hawaiian or other Pacific Islander"

Changes in Job Categories

The current category of "Officials and Managers" now has two subcategories. "Executive/Senior Level Officials and Managers" refers to those employees who plan, direct, and formulate policy, set strategy, and provide overall direction within the company. The second category, "First/Mid-Level Officials and Managers," identifies those individuals who direct implementation or operations within specific parameters set by executives or senior level officials and managers.

Moreover, non-management officials with expertise in business and finance should

now be included in the "Professional" category, while hourly paid supervisors and lead operators who are not on the management team need to be reassigned from "Craft Workers" to "Operatives." Finally, the "Office and Clerical" category has been renamed "Administrative Support Workers."

What Now?

If you are required to file an EEO-1 report, your data must include all full-time and part-time employees. Employers

"The revised EEO-1 requires employers to ask their employees to self-identify by ethnicity and race."

must file the report by September 30, 2007, and should submit it through the EEO-1 Online Filing System or as an electronically transmitted data file. ✓

The Greening of Construction

It's no longer a fad or a fringe activity. "Green" construction has entered the mainstream. And a growing number of contractors are running the numbers and recognizing that building environmentally friendly buildings may represent a significant source of future income. Green buildings now account for about 5% of commercial buildings in the marketplace, representing more than \$3.3 billion in real estate. The National Association of Home Builders says that green residential starts will climb from 2% in 2005 to between 5 and 10% in 2010.

What's Behind the Increased Interest?

The trend is largely being driven by the need for better energy efficiency. In addi-

tion, many consumers are demanding "healthier" homes. Contractors are responding by using far fewer chemicals, adhesives, and solvents in building materials and using more natural materials and wood from renewable sources than traditionally constructed homes.

What Makes a Building "Green"?

While anyone can claim that a newly constructed building is "green," there is a voluntary national standard in which construction and renovation projects earn credits toward certification as sustainable buildings. The U.S. Green Building Council created the Leadership in Energy and Environmental Design (LEED) rating system to evaluate the location, design,

construction, and operational systems of newly constructed and renovated buildings. The LEED rating system essentially serves as a common standard of measurement for evaluating a building's overall sustainability and environmental friendliness.

Need to Know More?

Since more than 435 million square feet of LEED projects were constructed in 2005, twice the rate constructed in 2004, it seems unlikely that the demand for sustainable buildings will slow anytime soon. If you think that your contracting firm might benefit from this growing segment of the construction industry, check out the U.S. Green Building Council at www.usgbc.com for more information and an explanation of the LEED system. ✓

The Ins and Outs of Shareholder Loans

Like many other owners of contracting firms, you may someday plan on borrowing money from your corporation or making a loan to the business. Such transactions between corporations and their shareholders are not unusual. However, you should be aware that there's a right way and a wrong way to handle them. And, as a recent case illustrates, going about it the wrong way can have expensive tax consequences.

The Wrong Way

W, a sole shareholder, received a \$60,000 annual salary from his contracting firm in 2001. In addition, the contracting firm paid **W** additional, miscellaneous checks totaling \$72,000 that year.

W did not report the \$72,000 as income on his 2001 federal income-tax return. Unfortunately for **W**, the IRS queried the nature of the unreported payments. The issue ended up in the Tax Court, where **W** claimed that the money was simply a repayment of prior loans he had made to his business.

However, the facts undermined **W**'s position. First, his business recorded a zero balance in the loans from shareholders section of the balance sheet on the company's tax return. And, even though the corporation's handwritten ledger noted several loans from **W** to his corporation, none of the loans were corroborated by a formal promissory note with principal and an interest rate corresponding to the amounts recorded in the ledger. In fact, the corporate records did not contain any repayment schedules, notations of regular payments, or interest calculations.

Ultimately, the IRS successfully proved that the \$72,000 that **W** received from his corporation in 2001 was not a repayment of money he had lent the business. Rather, the payments were, in fact, dividend distributions. Under the tax law, a dividend is taxable to the individual who receives it and is not deductible by the corporation paying it. Thus, **W** ended up

having to pay income taxes on the money, as well as penalties and interest. The court also said that even if **W** had been able to prove that he had made advances to the corporation, under the circumstances the advances would be deemed equity contributions rather than loans.

Avoid the IRS Trap

If you plan on borrowing from your business or loaning the company money, you can take several steps to make sure the transaction stands up for tax purposes. First, make sure the terms of each loan are in writing. Second, clearly state what interest rate is being charged on the loan. The interest rate should be at least equal to the applicable federal rate. Next, be sure the note is signed and dated by you and your corporation. Your corporation's financial statements and your personal financial records should reflect a loan

- ✓ The ability of the shareholder to repay the loan
- ✓ Whether the loan matures on a specific date
- ✓ Efforts made by the corporation to obtain repayment
- ✓ The earnings and dividend-paying history of the corporation
- ✓ The degree of control the shareholder exercises over the corporation
- ✓ The manner in which the corporation records the advances on its books and records

Talk to Us

Any loan transaction between you and your corporation that lacks proper documentation can create financial problems for you down the road. If you are planning a corporation-shareholder loan anytime soon, please contact us. ✓

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between you and the corporation. Finally, the interest and principal payments should be made on time. If scheduled payments are missed, the promissory note should be amended to reschedule them.

Factors That the IRS Considers

The IRS examines several additional factors when it tries to determine whether corporate payments to shareholders are actually loans or dividends. Among the factors that the IRS considers:

- ✓ The security given for the loan, if any
- ✓ The amount of the loans or advances

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Developments in Tax and Business

Construction-related Employment Adds Jobs

The construction industry employed over 7.5 million people in 2006. That's a 31,400 employee increase over 2005. Most contractor specialties added employees — with contractors in heavy construction, land subdivision, and utility system construction posting the strongest percentage gains. Highway, street, bridge, building foundation, and exterior contractors employed fewer workers in 2006 than in 2005.

Cement Production Capacity to Expand

Currently, 115 cement plants operate in 36 states, but the industry has massive expansion plans — more than 20 million

metric tons of new capacity, representing more than \$5 billion in investments, is expected to come on line by 2010.

Absenteeism Rate Climbs to New High

The employee absenteeism rate jumped to 2.5% in 2006, an eight-year high, according to the *2006 CCH Unscheduled Absence Survey*. Personal illness topped the list of reasons (35%) for unscheduled absences.

New Social Security Tax Wage Base

The taxable wage base for 2007 is \$97,500, a significant jump from \$94,200 for 2006. Wages above this cap are not subject to Social Security tax. However, all wages are subject to Medicare tax. ✓

Can We Serve You?

Our firm provides a broad range of accounting, auditing, tax, employee benefit, and management consulting services to contractors.