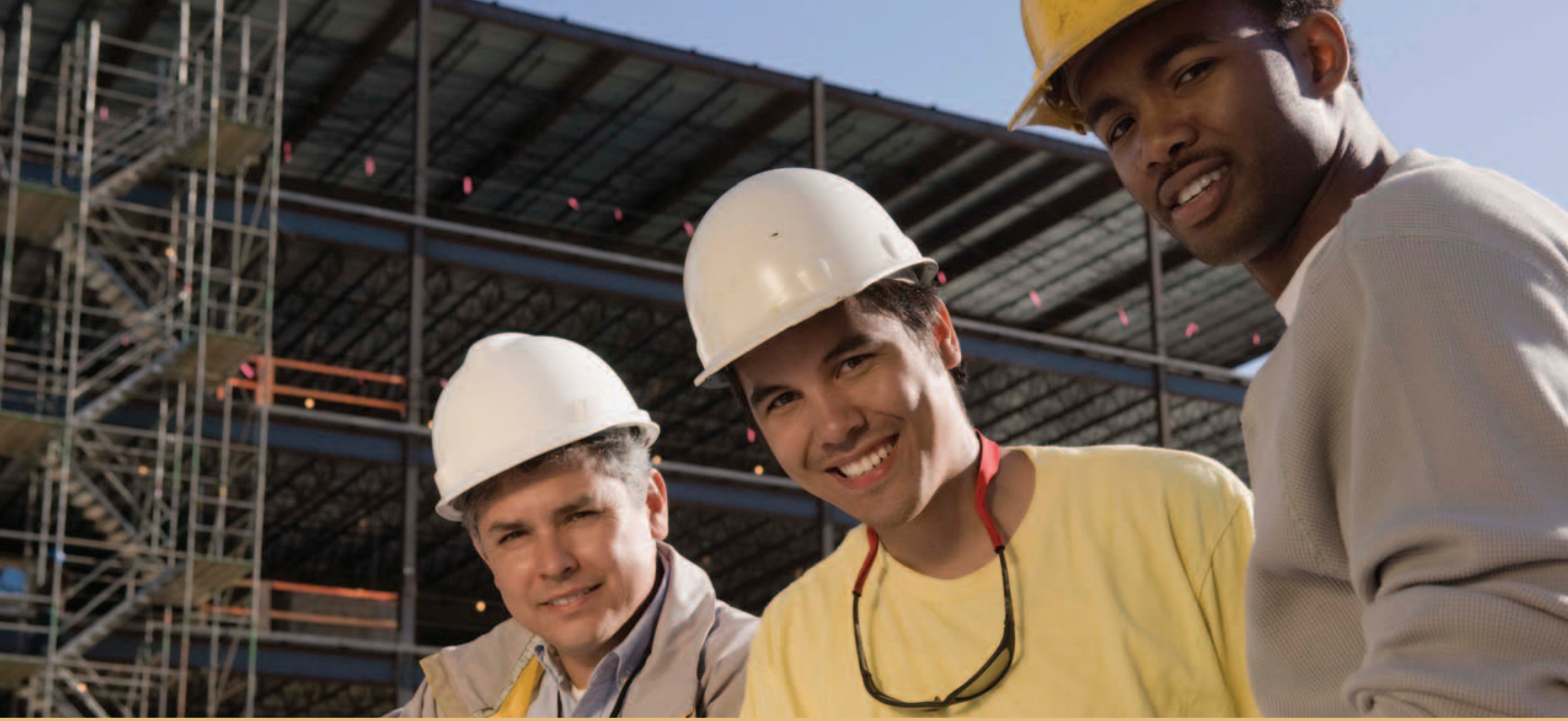


ON-SITE

Spring 2012

Managing payroll taxes: Not easy, but important

Boost productivity without breaking the bank
Considering on-the-job incentives

4 hot features of the latest construction accounting software

PLUS

The Contractor's Corner
How can we better control fuel costs?

Managing payroll taxes: Not easy, but important

Have payroll taxes been on your mind over the last few months? The topic may have caught your eye because of the congressional debate over whether to extend the reduced employee portion of the Social Security tax on earned income (from 6.2% to 4.2%) through this year.

As fate would have it, this past February, Congress did extend the reduction through Dec. 31, 2012. Although the cut applies to employees, not employers, using the development as inspiration to review your construction company's payroll tax management is still a good idea.

Who's taxable?

Essentially, if you have the right to direct and control a worker — including when, where and how his or her work is carried out — this person is an employee (rather than an independent contractor). You must issue such a worker a Form W-2 and withhold and pay the appropriate payroll taxes. This pertains to both full- and part-time employees as well as seasonal workers.

That may sound simple enough, but a variety of specialists or temporary workers may contribute to a given project. So you've got to closely monitor which ones are employees and which are independent contractors. Those in the latter category should, among other factors, largely to completely control what they do and how they do it. They also need to incur a financial risk in joining a project and pay self-employment taxes.

The law broadly defines "wages" to include just about any type of compensation.

Sometimes a given worker is engaged as an independent contractor for a particular job but, over time, blends into the conventional workforce, increasingly taking direction from the construction company owner. Sound familiar? Watch out: The IRS could reclassify such an individual as an employee and charge you back taxes, interest and even penalties.

What's taxable?

"Wages" is probably the most commonly used word to describe what's taxable when it comes to payroll. The law broadly defines this word to include just about any type of compensation, including:

- Full- and part-time salaries,
- Hourly wages,
- Fees, and
- Commissions.

4 major contributors to payroll taxes

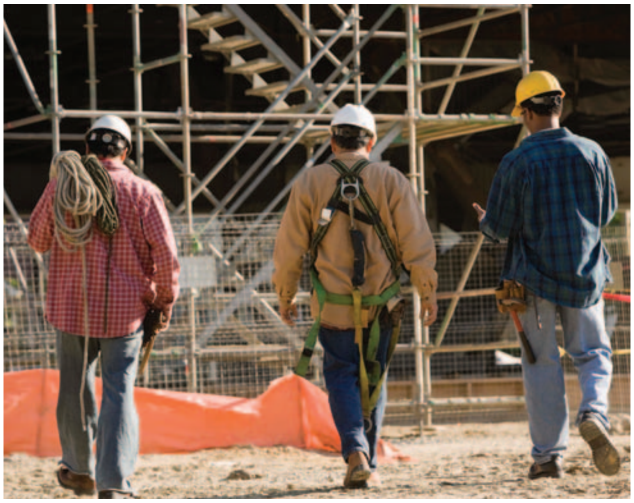
Wages paid to your construction company's employees aren't subject to a single "payroll tax." Rather, at the federal level, there are four major contributors:

1. Personal income taxes. These are the amounts you withhold from employees' wages based on the information on their Forms W-4. To ensure accuracy, periodically review the IRS tables that determine how much federal personal income taxes should be withheld and compare information on your workers' W-4s with what's in your payroll system. You also may be required to withhold state and even local income taxes, depending on the jurisdiction.

2. Social Security taxes. You not only must withhold the proper amount of Social Security taxes (4.2% for 2012) from each employee's wages up to the annual limit ($110,100 for 2012), but also must pay Social Security taxes equal to 6.2% of the employee's wages up to that limit. Be sure your payments are accurately reflected as expenses in your construction company's financial statements.

3. Medicare taxes. As you do for Social Security taxes, you must both withhold employee amounts and pay employer amounts for Medicare taxes. The percentage is 1.45% each. In contrast to Social Security taxes, no wage limit applies to Medicare taxes. This is also an expense that you should carefully track. (Together, Social Security and Medicare taxes are commonly referred to as FICA, which stands for "Federal Insurance Contributions Act.")

4. Federal unemployment taxes. Commonly represented by the abbreviation FUTA, these taxes are different from the others in that there's no withholding involved. The burden to pay these taxes falls solely on you.



Generally, companies tend to pay unemployment taxes during the first two quarters of the year because, once an employee's base wage exceeds a certain level, no further taxes are due. If this tendency holds true for your construction company, see whether you can use it to your advantage when managing your cash flow.

When reviewing your payroll tax obligations, it's helpful to also look into what's generally *not* subject to payroll taxes under the Internal Revenue Code. Some noncash compensation may be deemed a "statutorily excluded" (or "fringe") benefit and, therefore, excluded from employee income.

Some examples of benefits treated in this manner are group term-life insurance (up to certain limits), some health care coverage and parking privileges. The more you can compensate employees in the form of such benefits rather than wages, the greater the payroll tax savings.

How can we cope?

There's an old saying: "The best way to manage payroll taxes is to pay them." Perhaps the most obvious answer is to reduce the size of your workforce. But many contractors have already resorted to this measure in recent years, and doing so may inhibit your ability to complete jobs on time.

Another idea to consider is creating or formalizing an "accountable" tool-reimbursement plan with your employees. You may already reimburse workers for the cost of their tools, but the plan must meet IRS standards to qualify for tax-advantaged treatment. (Ask your tax advisor for the specifics.)

Under an accountable plan, you don't have to pay employment taxes on the reimbursements, and your employees won't have to pay income taxes or their portion of employment taxes on them either. Plus, you can deduct the reimbursements as a business expense.

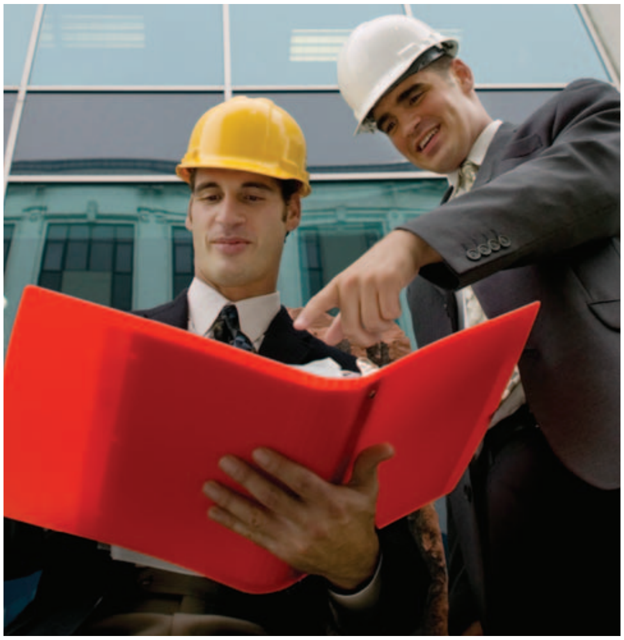
Why it matters

If you're ever tempted to use payroll tax withholdings to cover project expenses, resist that urge. IRS penalties for unpaid payroll taxes can be devastating. Although there isn't much wiggle room in this area, knowledge is key to meeting your obligations while still smartly managing your money. ☒

Boost productivity without breaking the bank

Considering on-the-job incentives

There's no doubt that, in many markets around the country, profit margins for construction companies remain tight. One way to loosen up your margin is to finish jobs more quickly without sacrificing quality. Doing so usually means you minimized waste, avoided mistakes and impressed the owner.



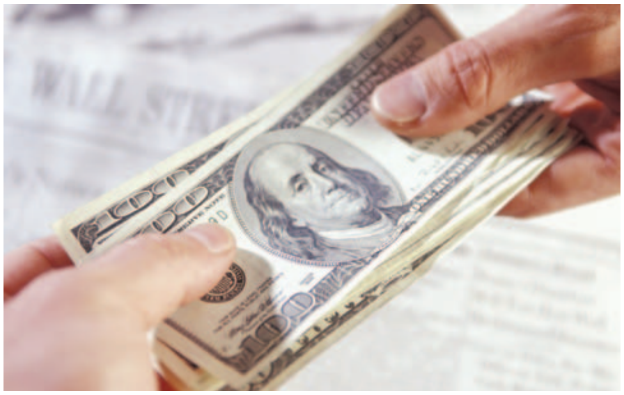
When looking to boost productivity, it's natural for you to want to incentivize your workers. But should a contractor offer incentives to project crews in today's uncertain economy? Not without serious thought, of course. But if doing so will improve timeliness, the long-term results could pay off. Here are some issues to consider should you take this step.

Get real

Too often, construction companies implement incentive plans half-heartedly and with too much caution. An incentive plan is most likely to succeed if it:

- Clearly ties superior performance with pay or a valued reward,
- Has clear, measurable standards, and
- Puts goals within employees' reach.

In other words, it's got to be real: Casual rewards that don't identify the precise relationship between performance and incentives may be perceived as



unfair and create animosity among workers. Unrealistically high standards that offer workers little hope of meeting them will undermine the plan.

Be methodical

Then again, you can't approach incentives haphazardly. You must take a methodical approach for both your and your workers' benefit.

Before developing the nuts and bolts of your incentive compensation plan, assess your business goals and what you want employees to accomplish in furthering those goals. Goals will differ with each worker's role within the company; for example, you might ask supervisors to improve safety and reduce reportable accidents or a controller to generate monthly reports in a timely manner. Goals should, where possible, be linked to specific projects, timelines or budgets, and ultimately feed your bottom line.

After laying out management goals, determine how much you're willing or able to pay in incentives. Every construction company has its own way of rewarding performance. Some choose to provide compensation for employees who have no reportable accidents. Others provide quality or production incentives for reducing costs.

Another option to consider, particularly for project managers, is phantom stock plans. Phantom stock enables select employees to share in increases in company value over time. Unlike "real" stock, however, phantom stock doesn't convey actual ownership in the business.

A phantom share is a credit in an employee account for an amount equal to the value of your company's "real" shares. The account is credited with changes in share value, along with dividends and other distributions. Participants are usually required to remain employed by the company for a certain number of years or until retirement to cash in their shares.

Roll it out

When you're ready to roll out your program, don't do so by word of mouth. Put your incentive pay plan in writing and give your workers a copy. At a minimum, all workers should know what's expected of them and how their performance will translate into increased pay. Because employees don't always see a link between their efforts and profits, make sure you clear up any uncertainties before implementing the plan.

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Last, evaluate results. Regularly review the incentive plan to determine how well it's working. To do so, keep good records and analyze key metrics that measure the program's progress. Although feedback may indicate the need for changes or improvements, don't drop the incentive program without giving it sufficient time to work.

Get them to go

To be clear, incentive plans aren't for every construction company. They come with risks of spending too much time and energy developing a program that may never take hold. And you may commit too many dollars to rewards, inadvertently putting other areas of your business at risk. Still, in order to get workers to go the extra mile, you must give them a clear, more enjoyable path for getting there.

4 hot features of the latest construction accounting software

Running a construction company without accounting software may seem next to impossible these days. Unless you're a small, specialized contractor, you're simply taking too big of a risk with your financials if you're not wielding technology to your advantage.

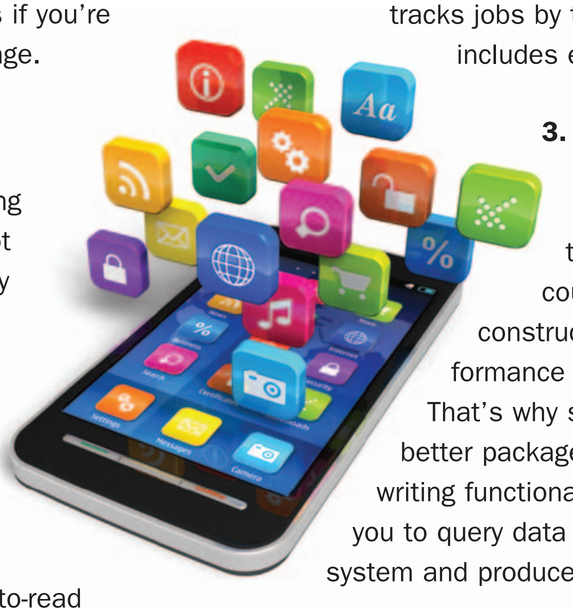
So, assuming you have a construction accounting package in place, you need to keep an eye on whether it's becoming outdated. To that end, here are four hot features of the latest software that may convince you to consider an upgrade:

1. Executive dashboard. Just as your vehicle's dashboard displays miles per hour, fuel level and mileage, an executive dashboard puts all of the key performance indicators (KPI) you need to monitor on one easy-to-read display and updates them in real time. For contractors, KPI may include cash collections, project scheduling, and supply shipments and inventory levels.

For example, Viewpoint Construction Accounting Software combines bid management, scheduling, project management and accounting in a single suite. It includes a dashboard that displays gross profit, cash flow and subcontracts.

2. Dispatch function. Several accounting packages now include a feature that allows you to schedule service calls and easily integrate them into your job schedules. As job tasks come up, your dispatcher or project managers can look at a visual depiction (imagine a highly interactive calendar) of current work scheduled and then add work orders into available timeslots.

Procuring this functionality can improve the efficiency of how you deploy crews and position assets. For instance, Ventus by Vertical Market Software includes a service dispatch feature that tracks jobs by ticket number and includes estimated hours.



3. Report writing. Your accounting system may contain information that could improve your construction company's performance in a variety of ways. That's why some of today's better packages come with report writing functionality that enables you to query data sources within your system and produce a readable report.

One example: Foundation Software includes its DataGenie® Report Writer. It allows you to set queries based on, among other things, cost code and time period.

4. Mobile apps. A few software providers are beginning to offer mobile apps that you can install on a smart phone or tablet computer. From there, you may perform functions such as entering employee hours or tracking GPS-equipped vehicles.

Jonas Construction Software, for instance, markets a Windows-based mobile app that integrates with your accounting system and allows you to submit work order requests. There are other construction-themed apps available for both the iOS and Android platforms, though many may not integrate directly with your accounting system.

The Contractor’s Corner

How can we better control fuel costs?

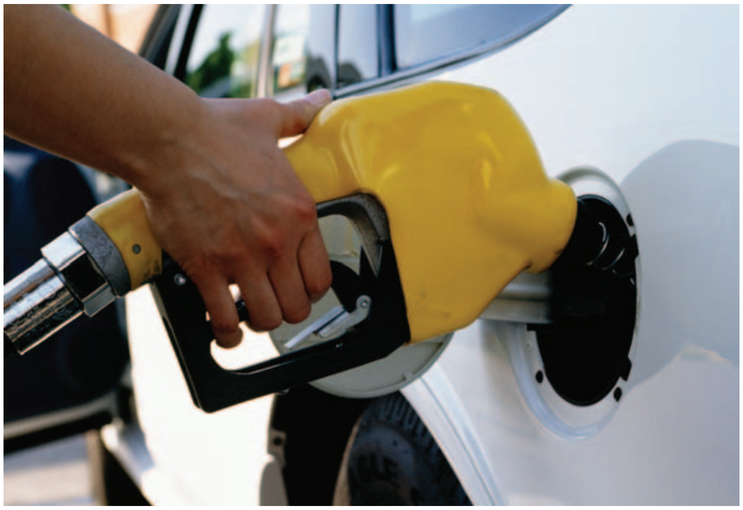
The cost of fuel has really hurt my construction company over the last several years. No matter how carefully we forecast our expenses, we always seem to go over budget. I’ve made it one of our business objectives this year to at least break even on fuel costs, if not finish ahead. Do you have any advice on how we might reach this goal?

Fuel usage in China and other emerging nations has kept the worldwide demand for crude oil and gasoline high, keeping prices elevated as well. Although fuel consumption among U.S. construction companies has been declining fairly steadily since hitting a peak in December 2010, according to the Wright Express Construction Fuel Consumption Index it’s still not easy to control spending in this area.

Preventive measures

Managing fuel costs is all about efficiency. For example, when workers leave a job site to refuel, productivity suffers. When possible, gas up vehicles early in the day and at a central location so you can monitor usage. If you typically install an on-site fuel tank, assess the cost vs. benefit of doing so. You may be overspending on a large amount of fuel you don’t really need.

Vehicle maintenance is also key. Clogged air filters, bad brakes and poorly inflated tires can increase consumption. Check into whether workers are following your maintenance policies, and verify that drivers aren’t engaging in practices such as excessive speeding or needless idling.



Price protection

An intriguing concept for many contractors these days is striking a price protection agreement with a fuel vendor.

Under these arrangements, you negotiate a “protected price” based on the number of gallons you expect to buy over a certain period of time. That price is then compared to an indexed price, such as that determined by the National Average Retail Price index. If the index price at a given time exceeds your protected price, the vendor sends you a cash payment for the difference.

“Fuel hedging,” as this is often called, can enable you to proactively manage costs. Just be sure to read the fine print of the deal. Is an expensive upfront premium required? Are there other fees? If you’re interested, a couple of providers to check out include Pricelock Inc. and FuelBank.

Can’t work without it

Contractors are often nickel-and-dimed by expenses deemed “just the cost of doing business.” And fuel is certainly a good example — you can’t work without it. But, by the same token, you don’t have to accept that the expense of keeping your vehicles and equipment running is out of your control.