

GRASSI & CO. 2017 CONSTRUCTION INDUSTRY MARKET OUTLOOK SURVEY RESULTS

DPAD, Succession Planning and Other Key Trends

Every year, Grassi & Co. produces a Construction Industry Market Outlook Survey followed by a Symposium made up of executives within the construction industry to comment on the results of the survey. This year's panel was comprised of: James C. Bifulco, Managing Member of TSC North America/Total Safety Consulting, LLC; Matthew Schimenti, President of Schimenti Construction Company; Michael J. Buoncore, Executive Vice President of GPI; Michele O'Connor, Principal at Langan; and Susan Hayes, Managing Partner of Susan Hayes Enterprises. The 2017 Construction Market Outlook Survey reflects the responses of executives from a cross section of the Construction Industry within the New York regional area.

DPAD-Why Are You throwing Money Aside?

A very important statistic came out of that survey regarding the Domestic Production Activities Deduction (DPAD), which was enacted as part of the American Jobs Creation Act of 2004 with the purpose of providing a deduction for U. S. businesses allowed for both regular tax and alternative minimum tax (AMT) purposes. The DPAD is available to all taxpayers who do not export goods including individuals, C and S corporations, cooperatives, estates and trusts. One of the many activities eligible for the DPAD are U. S. construction services, which include building and renovation of residential as well as commercial real estate.

Based on the results of our survey, what was both surprising and disturbing was the low percentage of construction company owners who actually took advantage of this tax benefit. (Only 19% of those surveyed) It provides a federal income tax deduction equal to 9% of the lesser of taxable income or qualified production activities income (QPAI).

Proactive tax planning is important for all companies, but especially for companies that are pass-through entities. Saving tax dollars translates to additional working capital for growth strategies or to improve internal infrastructure and operations, which is essential for the continued success of contractors. Owners should consider the techniques that are not being utilized and quantify the savings that can be attained as part of proper tax projections for the entity.

Succession Planning

Succession planning continues to be another important issue in the construction industry. In order to ensure future leadership, 59% of construction companies surveyed already have a plan in place to transition management and stock to the next generation as the baby boomer generation is exiting the construction industry. One of the key findings of our survey regarding this issue was the renewed focus of construction companies to identify and grow their top leaders in order to transition their businesses in the future. (46% of those surveyed reported it as being their top priority for transitioning their business).

Safety, Safety, Safety

Due to new safety standards put in place in NYC as part of construction safety reform, developing and implementing an industry leading safety program is an important step in helping the construction contractor solve labor issues as it demonstrates the welfare of workers—and worksite is priority number one. 46% of survey participants stated that the second most impactful driver in safety programs is the ability to check subcontractors' prior safety record/performance before working with them. Contractors must demonstrate the priority of safety to their workforce by training employees and hiring of compliant subcontractors that meet established safety requirements.

"Proactive safety management has to be embraced by all stakeholders, including owners, construction managers, subcontractors, and workers, and must be part of any Construction entities risk management plan," said James C. Bifulco, Managing Member of TSC North America/Total Safety Consulting, LLC. "The consequences of not properly managing safety can have disastrous results on a project and could make the difference between major success or failure."

All in all, things are certainly looking up in the construction industry, with companies reporting stronger financial results in 2016 than 2015 and 2014. For the first-time in NYC history construction spending exceeded \$40 billion! What remains uncertain and unknown, however, is the proposed tax code overhaul and how it will affect the industry. Fingers crossed!

If you are interested in a copy of the 2017 Construction Industry Market Outlook Survey, or for more information on how to utilize the DPAD, contact Carl Oliveri or Steven Goldstein, Construction Partners of Grassi & Co., at coliveri@grassicpas.com or sgoldstein@grassicpas.com.