FALL 2021

CONSTRUCTION

Quarterly Industry Newsletter

With a little over two months remaining until you can begin filing your 2021 tax return, now's the time to kick your tax planning into high gear.

Also read about several updates on the industry through this year of unknowns, Taking a look at residential and non-residential, discuss some possible COVID tax breaks and much more.

Please call if you would like to discuss how this information could impact your situation. If you know someone who could benefit from this newsletter, feel free to send it to them.

Rochester, NY Brockport, NY Orlando, FL Winter Haven, FL North Palm Beach, FL

Executive Summary

Going up: A relatively low interest rate environment will likely support sector revenue growth

The Construction sector has grown over the five years to 2021, despite a decline in demand in 2020. Sector operators construct buildings and engineer projects, which often leads sector revenue to correlate with fluctuations in macroeconomic conditions. The sector has benefited from relatively low interest rates over the past five years, which has provided an accommodative borrowing environment for both residential consumers and nonresidential clients. Additionally, a rise in per capita disposable income and consumer spending during most of the period enabled consumers to feel more confident regarding their financial situations and increase overall business activity. These trends, coupled with accommodative lending standards by banks, have ultimately led sector revenue to rise during the period.

Overall, sector revenue has risen at an annualized rate of 2.4% to $2.4 trillion over the five years to 2021, including an increase of 2.6% in 2021 alone. However, this growth was hindered due to the COVID-19 (coronavirus) pandemic, which led revenue to decline 0.5% in 2020 alone. This decline comes amid a significant decrease in business activity and consumer confidence, in addition to a steep rise in the unemployment rate, leading to the delay of projects and demand for sector services. While industry revenue has risen during the period, sector profit has not followed. The average sector profit margin, measured as earnings before interest and taxes, is expected to account for 5.9% of revenue in 2021.

Please call to discuss these and other tax planning opportunities.
888.252.8769

The Construction sector is anticipated to expand over the five years to 2026 as the economy recovers from the coronavirus pandemic, in addition to the relatively low interest rate environment. Many of the largest industries in this sector are anticipated to experience faster growth following low building volumes over the past five years, with sector growth expected to be primarily driven by improvements in commercial and infrastructure construction. Meanwhile, anticipated accelerations in residential construction activity will likely increase revenue growth. Overall, sector revenue is forecast to rise at an annualized rate of 2.0% to $2.7 trillion over the five years to 2026, as demand for sector services continues to expand.

Tax Planning Meetings

Now is the time to schedule

Now is the time to schedule a tax planning appointment. If you are on the fence, here are some things to consider:

It can make a difference. This is especially true if you have a major event that occurs during the year. For example:

- Selling a house? You can avoid taxes if primary residence requirements are met.
- Starting a business? Choosing the correct entity can lower your taxes every year!
- Getting ready to retire? Properly balancing the different revenue streams (part-time wages, Social Security benefits, IRA distributions and more) has a huge impact on your tax liability.

Even in uneventful years, external forces like new tax laws can be managed if planned for in advance.

Put yourself in control. Timing is important when it comes to minimizing taxes, and the timing is often in your control. For instance, bundling multiple years of charitable contributions into one year can create an opportunity to itemize deductions. Plus holding investments for longer than one year to get a lower tax rate, and making efficient retirement withdrawals are other examples of prudent tax strategies that you control.

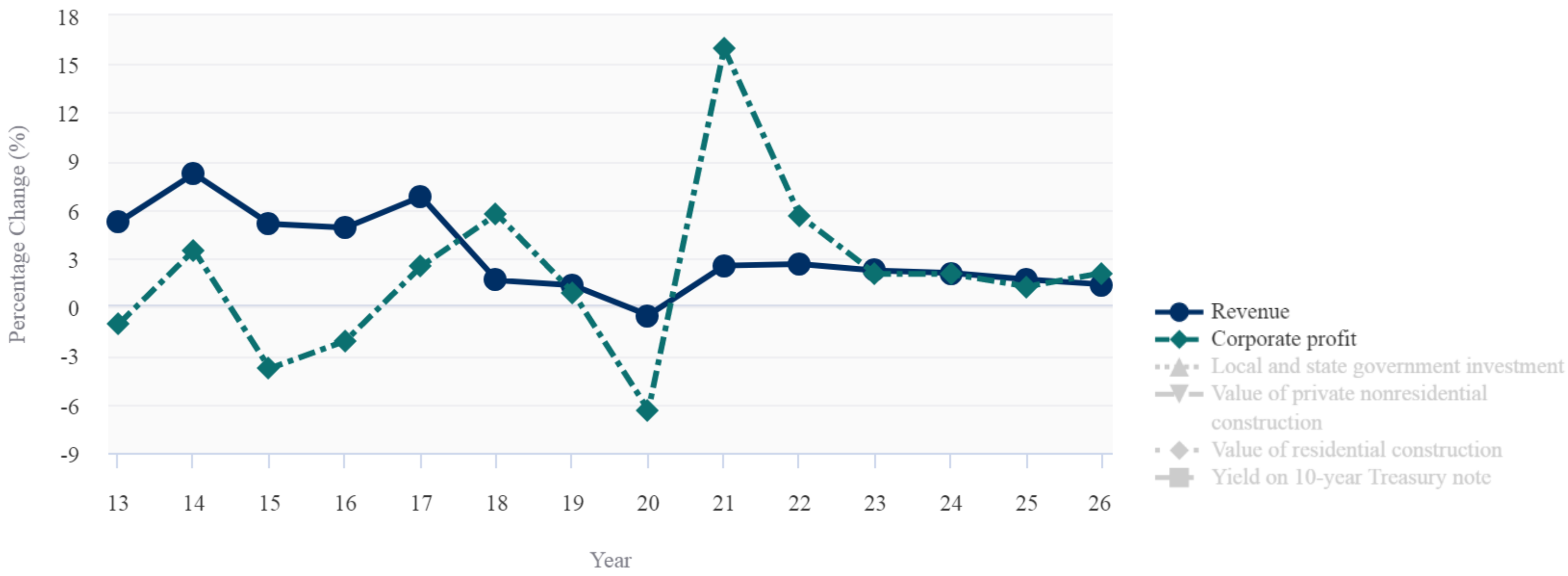
There may still be COVID tax breaks. While it's true that many one-time tax breaks were offered for only the 2020 tax year, there are still plenty of COVID tax breaks available in 2021. Some of these tax breaks include an expanded child tax credit, an increased child and dependent care credit, the ability to roll forward unused funds in your Flexible Spending Account and charitable deductions that are available to all taxpayers, even if you don't itemize your deductions.

There are tax planning opportunities for every level of income. There are tax strategies to be implemented at all income levels, not just those at the top of the tax bracket. Tax deductions are available for student loan interest, IRA contributions and others even if you claim the standard deduction. Certain tax credits (called refundable credits) will increase your refund even if you don't owe taxes. Missing any of these tax breaks can unnecessarily increase your taxes.

Tax planning is often as simple as looking for ways to reduce taxable income, delay a tax bill, increase tax deductions, and take advantage of all available tax credits. The best place to start is to bolster your level of tax knowledge by picking up the phone and asking for assistance.

KEY EXTERNAL DRIVERS

2013-2026



Corporate profit

The Construction sector derives a substantial share of revenue from services provided to commercial businesses. Corporate profit influences a business's ability to expand operations; as corporate profit rises, companies become more able and willing to open new locations and hire more workers, driving demand for new commercial construction. Corporate profit is expected to rise in 2021.

Local and state government investment

The Construction sector derives a substantial portion of revenue from services provided to the public sector. As local and state government investment increases, so does demand for construction services. Ongoing, and often noncyclical, investment in museums, courthouses, police stations and recreation facilities all drive demand. Local and state government investment is expected to decline in 2021.

Value of private nonresidential construction

The value of private nonresidential construction includes new construction and renovations associated with all nonresidential buildings, such as commercial, industrial, educational and religious structures. The Construction sector derives more than 70.0% of its revenue from new construction, renovation and repairs on nonresidential buildings. As a result, construction contractors benefit from increased private nonresidential construction activity. The value of private nonresidential construction is expected to decline in 2021, posing a potential threat to the sector.

Value of residential construction

The value of residential construction includes new single-family and multifamily building projects. This segment also includes renovations to existing structures by homeowners, developers and landlords. The Construction sector benefits from increased investment in residential properties, as new homes require sector operators to complete construction while owners of existing structures contract sector operators for various renovations and upgrades. The value of residential construction is expected to increase in 2021, representing a potential opportunity for the sector.

RESIDENTIAL CONSTRUCTION

Residential construction markets have been bolstered by improving household finances and increasing consumer confidence during the first half of the period, prior to a steep decline in consumer confidence in 2020.

Additionally, relatively low mortgage rates and government policy measures supporting homeownership have boosted demand for residential building services. Furthermore, the wave of natural disasters that has occurred over the past five years, resulting in extensive property damage from hurricanes, bush fires and earthquakes, has aided in stimulating demand for new single-family housing construction irrespective of underlying trends in housing demand. Rising home prices have additionally bolstered demand for renovation and repair work as consumers have sought to maximize the value of their home equity, further boosting revenue from this segment.

Multifamily construction has also been a significant driver of residential building construction during the period. The millennial and baby boomer generations have been rapidly driving demand for new multifamily housing units in urban areas across the United States, with millennials preferring to rent apartments rather than buy homes. A wave of foreign capital investment in new multifamily construction has additionally driven revenue for sector operators, as foreign investors have funded multiunit projects in an effort to capitalize on these demographic trends.

As a result of a relatively low housing stock, demand for new housing construction has increased. Accordingly, the value of residential construction rose 6.1% in 2020 and is expected to further increase 13.9% in 2021, despite the coronavirus pandemic and lockdown orders across the economy. While initial expectations for 2020 included a steep decline in residential construction activity amid the pandemic and economic downturn, continued demand for new housing due to a low housing stock pushed revenue generated from the residential market higher. Still, rising home prices and stricter credit lending is expected to push some potential buyers out of the market, while relatively low interest rates attract others. As the economy recovers and the low housing stock drives prices of existing homes higher, sector operators will likely benefit from consumers investing in newly built homes.

NON-RESIDENTIAL CONSTRUCTION

Nonresidential construction markets have experienced mixed conditions over the past five years.

The commercial building market has largely driven growth for the nonresidential construction segment, which has been due to increased levels of consumer spending and corporate profit precipitating increased demand for new commercial buildings. These positive economic factors have encouraged both new businesses to open and existing businesses to expand across several downstream sectors, whereas declining unemployment prior to 2020 necessitated an increase in new commercial space. However, demand for commercial construction activity has declined during the latter half of the period, as economic uncertainty has increased and demand for traditional brick-and-mortar outlets has declined. Moreover, the overall decline in nonresidential construction activity over the past five years is expected to be further hindered by a steep decline in 2020 amid the pandemic. As business activity has waned and consumer spending has decreased, the value of private nonresidential construction declined 11.0% in 2020 and is expected to fall 6.3% in 2021.

Overall, the value of private nonresidential construction has declined at an annualized rate of 2.2% over the five years to 2021.Similarly, municipal and nonbuilding construction markets have experienced mixed results over the past five years as a result of uneven investment growth. Investment in municipal building construction has been volatile during the period due to a diminished tax base and reduced federal assistance, leading to faltering demand for public building projects. Overall, local and state government investment has increase at an annualized rate of 0.6% over the five years to 2021, with various single-year contractions reducing the volume of new business generated from this market. Additionally, federal spending on transportation-related infrastructure projects has remained subdued during the period as the former Trump administration restricted new outlays on transportation spending. In addition, demand for new construction on oil and gas pipelines has been erratic due to volatile investment in energy-related infrastructure, further limiting revenue growth for nonbuilding construction contractors.

OPERATING AT A GLANCE

Key Statistics

$2.4TR
REVENUE

Annual Growth 2016–2021
2.4%

Annual Growth 2021–2026
2.0%

Annual Growth 2016–2026

$143.7BN
PROFIT

Annual Growth 2016–2021
2.4%

Annual Growth 2016–2021

5.9%
PROFIT MARGIN

Annual Growth 2016–2021
0.0pp

4M
BUSINESSES

Annual Growth 2016–2021
3.0%

Annual Growth 2021–2026
2.6%

Annual Growth 2016–2026

10M
EMPLOYMENT

Annual Growth 2016–2021
2.1%

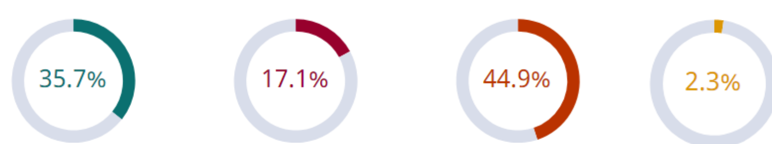
Annual Growth 2021–2026
2.2%

Annual Growth 2016–2026

While sector revenue has grown over the five years to 2021, construction contractors across both the residential and nonresidential markets have contended with several challenges that have somewhat hindered growth.
Severe labor shortages have plagued construction contractors across the sector in recent years, limiting the level of construction investment and volume of new projects. This labor shortage has created particular difficulties among small- and medium-sized building companies, making delivering projects on time more challenging and driving the cost of labor to unsustainable heights.

Still, sector employment has increased at a faster rate than revenue, with sector employment expanding at an annualized rate of 2.1% to 9.8 million workers over the five years to 2021. Amid labor shortages, sector wages have increased at an annualized rate of 3.6% to $525.1 billion during the same period, as operators pay a premium to retain skilled labor. As a result of faltering demand for construction contracting services, the average sector profit margin, measured as earnings before interest and taxes, is expected to account for 5.9% of revenue in 2021. Nonetheless, the number of sector establishments has risen, growing at an annualized rate of 3.2% to 3.7 million business locations over the five years to 2021, as operators have expanded into new markets.

Amid an expected economic rebound, the Construction sector is anticipated to expand, with revenue increasing at an annualized rate of 2.0% to $2.7 trillion over the five years to 2026.



Building construction | Heavy and civil engineering construction | Specialty trade contracting | All other activities

This report given by IbisWorld September 2021

Give Your Business an End-of-Summer Check-up

As summer winds down, your business's financial statements may be due for a quick check-up. Here are several review suggestions to help determine the health of your business prior to year end.

- **Balance sheet reconciliations.** Reconcile each asset and liability account every quarter. A well-supported balance sheet can guide decisions about cash reserves, debt financing, inventory management, receivables, payables, and property. Regular monitoring can highlight vulnerabilities, providing time for corrective action.
- **Debt service coverage.** Do you have enough cash to adequately handle principal and interest payments? Calculate your cash flow to ensure you can handle both current and future monthly loan payments.
- **Projected revenue.** Take a look at your income statements and see how your revenue has performed so far this year versus what you thought your revenue was going to be. If revenue varies from what you expect, get with your sales and marketing team to pinpoint what has gone better, or worse, than expected.
- **Projected expenses.** Put a stop to disappearing cash by conducting a variance analysis of your expenses. What did you expect to spend so far in 2021 on salaries and wages compared to what you actually paid your employees? What about other big expenses like rent or insurance? Take the amount of money actually spent so far in 2021 in each of your major expense accounts and compare it to your spending forecast. Then create an updated forecast for the balance of the year.

A review of your financial statements now will help you be prepared if you need to navigate an obstacle or capitalize on potential opportunities to expand your business.

Please call if you have any questions on how to dig deeper in your analysis of your business's financial statements.

The Mutual Fund Tax Surprise!

Some tax planning tips for mutual fund investors

From a tax planning viewpoint heading into the 2021 tax season, here are some great mutual fund tips to avoid a tax surprise. Unless noted otherwise, these tips assume your mutual fund investment is outside of a retirement account like a 401(k) or traditional IRA.

Long-term gains create a potential tax benefit. With the Dow Jones, Nasdaq and S&P 500 indexes having grown between 10% and 20% since January 1, there's a good chance the stocks comprising your mutual funds have grown in value. Whenever possible, time the sale of your appreciated mutual fund shares to avoid short-term capital gains (assets that are held less than one year). Short-term capital gains are taxed as ordinary income, whereas long-term capital gains often have a lower tax rate

Time your sales to account for dividend distributions. If you've owned appreciated mutual fund shares for more than 12 months and want to sell, find out when your fund distributes dividends. Dividend tax rates could apply and may be very high. Selling before the dividend payout may keep all your earnings as long-term capital gains.

Recordkeeping is important. Keep detailed records of every transaction. While brokers are now required to report your cost basis to the IRS, the information they provide may be in error. It's best to develop a filing system to confirm the accuracy of what your broker is reporting.

The IRS wants your cost basis. Know the original cost of each share in your mutual fund. This basis includes any costs related to the transaction like brokerage fees. It can get pretty complicated as your mutual fund buys and sells shares in underlying individual equities that make up the mutual fund. It is even more complex if your mutual fund automatically reinvests any dividends.

Transfers could cause a tax event. Ask you broker or agent if there will be a capital gain if you transfer mutual fund shares from one account to another. What appears to be a transfer may actually be a sale of shares in one fund and a purchase of shares in another. This can create a taxable event if not handled properly.

The Mutual Fund Tax Surprise!

Continued

Dividend distributions can impact the fund's value. Similarly, if you've had your eye on a particular fund, understand the historic payout of dividends. The cost of the mutual fund might be artificially higher right before a dividend payout. To make matters worse, you may even get a dividend distribution that is taxed at higher ordinary income tax rates for gains that occurred before you purchased the mutual fund.

Plan withdrawals from retirement accounts to be tax-efficient. Remember withdrawals from mutual funds within retirement accounts like 401(k)s and traditional IRAs are taxed as ordinary income. So plan these sales accordingly.

Look at mutual fund costs. Disclosure rules require fund managers to adequately display the costs associated with each mutual fund. All things being equal, consider these operating costs when deciding between similarly performing mutual funds in a category.

Call if you would like to discuss how any of this information relates to you. If you know someone that can benefit from this newsletter, feel free to send it to them.

888.252.8769

info@thaneycpa.com