CONSTRUCTION NEWSLETTER

Thaney & Associates, CPAs Quarterly Newsletter

Client Update Newsletter

Now that the April 15th tax filing deadline has come and gone, you could wait until January to think about taxes again – but that's a bit like waiting until the night before a major exam to start studying...you might get through it, but it probably won't yield the best results. If you want a smaller tax bill in 2025, consider starting now to come up with a strategy.

In this month's newsletter, we've included four areas to review as you begin creating your 2025 tax plan.

You will also find a construction industry update, the driving factors of the industry, and the outlook of the construction industry for 2025.

Please pass this information on to anyone that may find it useful and call if you have any questions or concerns.

THANEY & ASSOCIATES
Certified Public Accountants

UPCOMING DATES

MAY 11TH

- MOTHER'S DAY

MAY 26TH

- MEMORIAL DAY

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THANEYCPA.COM
INFO@THANEYCPA.COM
888.252.8769

Starting Your Tax Planning

Lowering your tax bill next year works best as a planned event. So if you are interested in breathing a sigh of relief come next April, consider a review of these four areas as you create and implement your tax plan for 2025.

#1 - Your Home

Your home can create unexpected tax liabilities. Property value appreciation, home improvements, and refinancing your mortgage influence how much tax you pay.

When your home's value increases substantially, you might pay higher property taxes. Selling a home can also lead to capital gains taxes if you've lived in the property for less than two years or exceed the home sale exclusion amounts.

Tax Planning Tips for Your Home:

- ✓ Get a professional property assessment to ensure you're not overpaying property taxes. If so, know your location's time frame and process to amend your property's value in their formula.
- ✓ Consider timing home improvements to manage potential tax consequences by being smart about when assessments are applied in your location's property value.
- ✓ If selling, understand capital gains exclusion rules ($250,000 for single taxpayers, $500,000 for married couples)

#2 - Your Investments

Review your refinance closing disclosure to identify deductible mortgage points or fees
Investment income can impact your tax bill. Capital gains, dividend distributions, and frequent trading can all cause tax consequences.
Different investments also face different tax rates: Short-term capital gains get taxed at higher ordinary income rates and long-term gains typically receive more favorable treatment.

Tax Planning Tips for Your Investments:

- ✓ Implement tax-loss harvesting to offset capital gains
- ✓ Hold investments for more than a year to qualify for long-term capital gains rates
- ✓ Consider tax-efficient investments like index funds or ETFs
- ✓ Maximize contributions to tax-advantaged accounts like 401(k)s and IRAs

#3 - Your Retirement

Retirement accounts offer financial opportunities. But they can also cause tax pitfalls. Required minimum distributions (RMDs), early withdrawal penalties, and the tax treatment of different retirement account types influence your tax bill.

Tax Planning Tips for Your Retirement Accounts:

- ✓ Understand RMD rules and plan withdrawals strategically. Sometimes the most cost-effective plan withdrawals occur long before the RMD rules come into play!
- ✓ Consider tax-efficient Roth conversions to manage future tax liability
- ✓ Maximize health savings account (HSA) contributions as an additional retirement account
- ✓ Explore catch-up contributions if you're age 50 or older

#4 Your Life Events

Major life changes can dramatically change your tax situation. Marriage, divorce, having children, changing jobs, or experiencing significant income shifts can all reshape your tax liability.

Tax Planning Tips for Life Changes:

- ✓ Reassess your filing status as life changes may affect your tax bracket and deductions
- ✓ Track new deductions and credits as life events like adoption or education expenses may qualify for specific tax breaks
- ✓ Understand the age triggers built into the tax code and plan accordingly. This is especially important to understand as your children get older.

Sometimes your tax plan will show you an unavoidable, upcoming tax event, but you can plan for it to avoid a surprise. Other times your plan can help lower your tax liability, so it is best to begin as soon as possible.

THE CONSTRUCTION INDUSTRY

While uncertainty surrounding tariffs poses a threat, recent interest rate cuts and strong underlying demand will keep the construction sector growing.

The Construction sector has expanded over the past five years; nonresidential construction activity has been particularly strong, and a surge in materials costs has driven up contractors' rates. Contractors in the sector construct buildings and engineer projects across a wide range of industries and applications, so construction sector revenue tends to correlate with broader macroeconomic conditions. Volatile interest rates, specifically, have impacted sector activity in recent years, with high rates having cooled residential construction activity since 2022.

Sector revenue has risen at a CAGR of 4.1% to reach an expected $3.7 trillion in 2025, including an estimated increase of 1.5% in 2025 alone as recent interest rate cuts encourage investment. In recent years, contractors have benefited from easing supply chain issues, with the price of construction materials having slowly fallen from its May 2022 peak (though remaining well above pre-pandemic prices). This more predictable business environment has only had a limited positive effect on the average sector profit margin, however, as the construction sector's perennial labor shortage has kept wage costs high.

In 2025, the second Trump administration's policies have disrupted this previously stabilizing business environment, with ever-shifting tariff policies making it harder to plan for the future. A mounting trade war has the potential to disrupt supply chains and drive up the cost of materials, while plans for mass deportations threaten to further limit the sector's labor pool. Still, potential interest rate cuts in the coming years stand to spur increased investment in construction activity.

Contractors are set to continue to benefit from increasing commercial and infrastructure construction activity, aided by the 2021 Infrastructure Investment and Jobs Act, the 2022 CHIPS and Science Act and the 2022 Inflation Reduction Act. The Trump administration has looked to disrupt some of the funding included in these bills, particularly that which targets the previous administration's climate goals, however. Basic macroeconomic drivers, including population growth, will continue to expand the construction sector. Areas of the country with lower regulatory burdens, namely the Southeast, will continue to outpace the country as a whole in both construction activity and population growth. Overall, sector revenue is set to climb at a CAGR of 2.0% to reach $4.1 trillion in 2030.

DRIVING FACTORS OF THE CONSTRUCTION INDUSTY

The construction sector has had a mixed impact by the COVID-19 pandemic in recent years, with residential construction seeing a boost while private nonresidential construction faced challenges. High material costs have led to price-based gains for contractors. Interest rate fluctuations have affected construction spending, but recent cuts are expected to spur growth. Federal policies have supported nonresidential construction, particularly in utilities and manufacturing. Labor shortages remain a key issue for contractors, impacting wages and union membership trends.

- **Early in the current period, the COVID-19 pandemic had a mixed impact on construction.** The COVID-19 pandemic affected construction differently, with residential construction thriving due to increased home spending, while private nonresidential construction faced challenges with office space demand decreasing. Even after the pandemic, office vacancies remained high, impacting commercial building construction. Efforts to bring workers back to offices kept some construction going, but higher material costs have led to increases in overall construction costs.

- **Interest rate fluctuations have impacted construction spending.** High interest rates slowed construction investment due to increased costs of capital, particularly affecting residential construction. Recent interest rate cuts are expected to boost construction spending across the sector. The relationship between Federal Reserve rates and mortgage rates has influenced consumer spending and overall employment growth.

- **High material costs have led to price-based gains.** The cost of construction materials has surged in recent years due to supply shocks and transportation cost increases. Contractors passed these costs onto customers, leading to revenue gains based on higher prices. Although material costs have stabilized, they are not expected to return to pre-pandemic levels any time soon, with potential supply chain disruptions from tariff policies.

- **Federal policies have benefitted nonresidential construction.** Federal infrastructure spending and legislative acts have supported growth in utilities and manufacturing construction. After a surge in warehouse construction post-pandemic, data center construction has increased with growing demand. The Southeastern US presents better prospects for construction, with population growth driven by federal support. Policy uncertainty has arisen due to funding pauses, posing challenges and opportunities for contractors in navigating regulations.

- **Labor is a key issue for contractors.** Labor shortages remain a significant challenge for contractors, impacting wage growth and profit margins. Competition for skilled labor has increased post-pandemic, with younger generations showing mixed interest in manual labor. Union membership in the construction sector has declined, shifting bargaining power towards employers and impacting industry dynamics.

OUTLOOK OF THE CONSTRUCTION INDUSTRY

Interest rates are expected to decrease, benefiting the construction sector in the near future. Supply chain disruptions, due to tariffs and environmental disasters, pose a threat to contractors' profits. Federal funding from various acts will support construction revenue, although some projects face uncertainty. Demographic shifts, like millennials becoming homeowners and baby boomers retiring, will impact construction. Potential challenges in office and warehouse construction may affect contractors. Red tape and regulations will continue to impede construction activity, especially in certain regions of the US.

FALLING INTEREST RATES BENEFIT CONSTRUCTION ACTIVITY

With interest rates expected to decrease in the near future, the construction sector stands to benefit from a lower cost of capital. However, lingering uncertainty regarding future rate cuts, coupled with policies introducing tariffs, may impact the overall outlook for the sector. Additionally, proposals to use federal land for housing development could significantly boost housing construction in the future.

SUPPLY CHAIN DISRUPTIONS THREATEN CONTRACTORS' AVERAGE PROFIT

Global supply chains face threats from mounting tariffs and environmental disasters. These disruptions could drive up input costs and lower sector profits in the years ahead. Additionally, geopolitical conflicts and uncertainties surrounding tariff policies may further exacerbate the challenges faced by contractors.

FEDERAL FUNDING WILL SUPPORT CONSTRUCTION SECTOR REVENUE

Legislation such as the Infrastructure Investment and Jobs Act and the Inflation Reduction Act provides crucial funding for construction projects. Despite some funding pauses, the overall support for infrastructure and domestically produced materials is expected to boost construction revenue. However, changes in environmental policies may create mixed impacts on the sector.

DEMOGRAPHIC TRENDS WILL IMPACT CONTRACTORS

Shifting demographics, with millennials becoming a larger share of homeowners and the workforce, will drive demand for residential construction in the years to come. Conversely, the potential mass deportations promised in recent campaigns could worsen labor shortages in the sector. As baby boomers retire, more residential housing may become available, stimulating residential investments and construction activity.

POTENTIAL HEADWINDS IN OFFICE AND WAREHOUSE CONSTRUCTION

Office rental vacancies are expected to decrease slightly, impacting contractors in this market segment. Converting less-desirable offices and growth in life sciences and research buildings could offset some of these challenges. However, warehouse construction may slow down due to rising vacancy rates, while data center construction remains steady due to demand from cryptocurrency and AI industries.

RED TAPE WILL CONTINUE TO HOLD BACK CONSTRUCTION ACTIVITY

Regulatory hurdles, including environmental reviews, will continue to hinder construction activity, especially in some parts of the US. Variations in regulation across regions may favor certain areas for expanding construction activity. Despite challenges, regions with low regulatory burdens, like the South, are likely to see growth in manufacturing and residential construction in the coming years.

Estate Planning: *Tips for Every Family*

If juggling priorities were an Olympic sport, young parents would win the gold medal. Raising kids, advancing careers, paying off student loans, and saving for a home is a lot. All this makes estate planning feel like a tomorrow problem.

But estate planning puts you in charge of your family's financial future if the unexpected happens.

Here are three ways you can protect your family's future by starting your estate planning today.

Protect your current income

Your current income is the fuel that keeps your household going. Here are several ideas to protect your earnings:

- ***Minimize tax liabilities*** using tools such as trusts or family limited partnerships can shield assets from estate or capital gains taxes.
- ***Protect against lawsuits and creditors*** by structuring ownership through legal entities or trusts. These separate legal entities can make it harder for lawsuits or creditors to reach your personal income or business revenue.
- ***Ensure income continuity if incapacitated.*** With powers of attorney and living trusts in place, you can tap someone you trust to manage your income and financial affairs if you're unable to do so.

Protect your future income

Estate planning isn't just about distributing assets, it's a proactive way to secure financial stability down the road. Here are several ideas to protect your future income.

- ***Preserve wealth using tax planning strategies.*** Trusts, retirement accounts, and gift giving can minimize your future estate and income taxes, helping you retain more of your earnings over time.
- ***Safeguard business and investment income.*** Planning for succession or setting up buy-sell agreements ensures that income from businesses or investments can continue in the future, even after death or incapacity.
- ***Provide long-term control over assets.*** Set specific terms in wills or trusts to dictate how and when income-generating assets are used. This can protect them from mismanagement or being wasted in short order.

Protect your children

Estate planning isn't just about money – it's also about protecting your kids if something happens to you. Here are several ways to protect your children.

- ***Ensure guardianship.*** If you pass away or become incapacitated, a will lets you name who should raise your children. Without this, the decision goes to the courts, and a judge will choose a guardian. Naming someone in your estate plan ensures your children are raised by someone you trust, in a stable and familiar environment.
- ***Control their inheritance.*** A well-structured estate plan allows you to manage how and when your children receive their inheritance. For example, you can create a trust and decide when to distribute money and for what purposes, such as education, health care, or buying a home.
- ***Minimize conflict.*** When your wishes are clearly written in legal documents, it leaves less room for disagreements among family members. This can help prevent costly legal battles or emotional fights over who should care for the kids or how money should be used.

Many people believe estate planning is only for the very wealthy. But as you can see, managing an estate is important for everyone, regardless of income level. Consider reviewing your situation with a qualified expert and help create peace of mind for yourself and your loved ones.