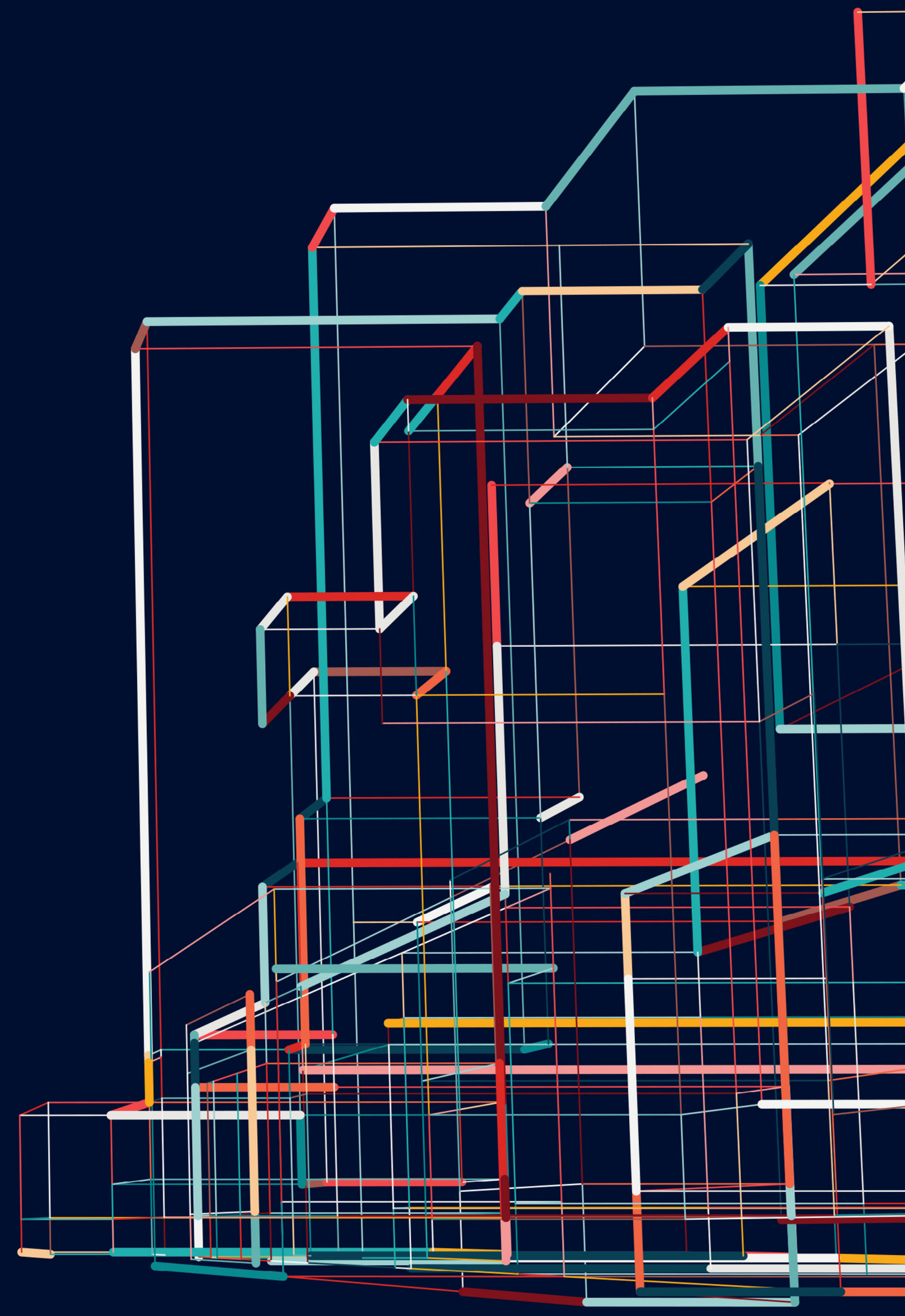
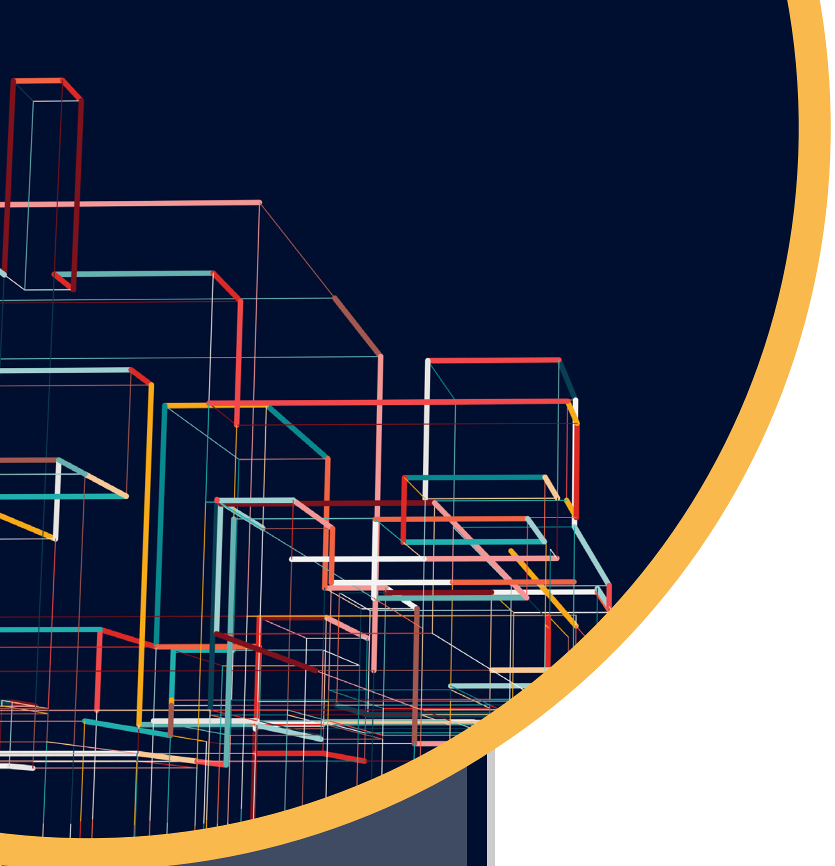
CONSTRUCTION PILLARS TO SUCCESS

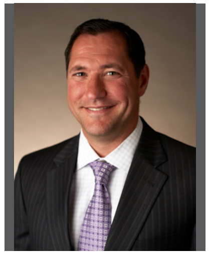
SCHNEIDER DOWNS

Big Thinking. Personal Focus.





INTRODUCTION



Ted Petko

We are thrilled to put together this document for use as a reference. The realm of business is in a constant state of flux, and the field of construction often seems to undergo changes more rapidly than others. In response to these dynamic shifts and numerous discussions we engage in with our clients, we curate insightful articles on these subjects. Our aim is to foster innovative perspectives for construction owners as they examine their enterprises.

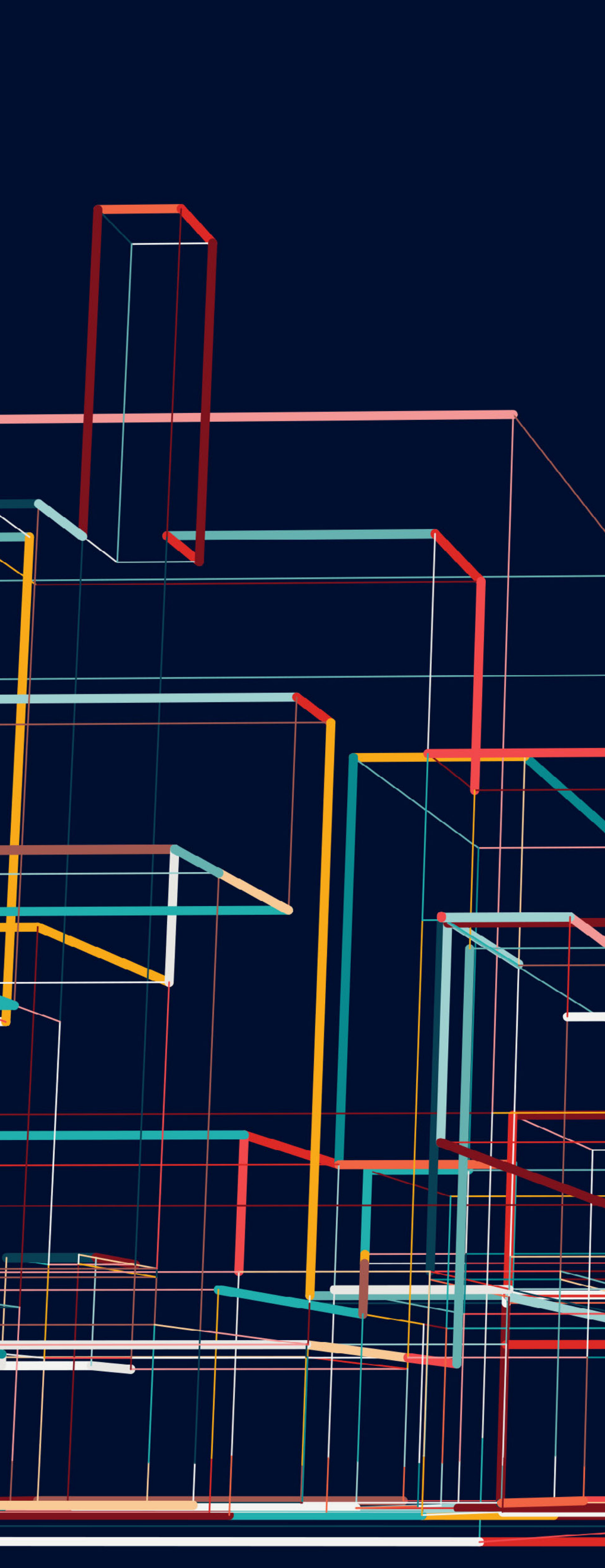
We've pinpointed four foundational pillars that are exerting influence on your construction business – namely, talent, strategic vision, tax considerations, and prevailing events. These pillars emerged prominently and swiftly during our brainstorming session. We believe that these individual topics offer an easily digestible reading experience that will both inform and stimulate your contemplation regarding how your organization can reap benefits.

CHANGING BUSINESS TIMES

TALENT

TAX MATTERS

STRATEGIC LONG-TERM VISION



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CHANGING BUSINESS TIMES

OPPORTUNITIES AND CHALLENGES IN TODAY'S CURRENT ENVIRONMENT

Jay Meglich

The operating environment today's construction and engineering professionals face is rapidly changing. Conditions and demands placed on front line workers, contractors, project managers, operational and financial executives and owners continue to evolve. Internal and external factors weigh on all as they work towards the common goal of delivering high quality product in a timely, cost-efficient manner.

This has always been challenging for these professionals but recent economic, operational and regulatory realities present new and/or expanded issues to be resolved. Below are just a few of the issues, as well as opportunities, created by these realities. As Winston Churchill once said, "The optimist sees opportunity in every difficulty."

Economic

The current state of the economy continues to affect E&C professionals, particularly in relation to increased prices and supply chain management.

Prices

- According to the Bureau of Labor Statistics (BLS), the producer price index inputs to the construction industry as of April 2023 showed a 39.2% increase since February of 2020 (pre-pandemic levels).
- Significant inflationary pressures have been seen in the most significant cost categories impacting construction companies, specifically materials, labor and energy. Not only are those costs impacting profitability, so too is the cost of money. The Prime Rate, as published by JPMorgan Chase, increased from 3.25% to 8.00% from March of 2020 to March of 2023. It currently stands at 8.5%.

To combat unrelenting third-party costs increases, principally contractor costs, materials and energy here, companies are becoming more transparent in detailing with subcontractors by sharing cost and capacity concerns that can be mutually addressed. Additionally, hedging opportunities where available is more frequently being considered, as well as procurement policies to maximize cost efficiencies across projects. Negotiating price escalation clauses into contracts, to the extent possible, is also becoming more prevalent.

OPPORTUNITIES AND CHALLENGES IN TODAY’S CURRENT ENVIRONMENT

Jay Meglich

Supply Chain Management

- While supply chain issues have improved from the early days of the pandemic, material availability, pricing, lead time and logistics remain a significant challenge.

Supply chain management is also a factor to be considered, potentially reducing material costs through utilizing more localized sourcing to reduce shipping costs as well as potential volume discount/rebate opportunities. Vertical integration is becoming more prevalent and can provide a significant return on investment in certain situations. The pace of inflation has slowed recently but is still a significant consideration for all.

Supply chain management is critical to reducing lead time. The failure to maintain, monitor and consistently improve the process can result in project performance delays and idle workforce, both of which are costly and impact productivity.

Operational

Today’s construction industry faces significant operational challenges related to workforce management, from both a talent acquisition and productivity perspective.

Talent Acquisition

- The BLS reports that as of the end of 2022, approximately 43% of the construction workforce is made up of individuals in excess of 45 years old, including approximately 22% being 55 or older. Many companies report difficulty in attracting new talent and maintaining adequate workforce levels.

The struggle to attract, train and retain employees is a struggle across most, if not all, industries. It is not unique to the construction industry but is a bit more alarming given the Department of Labor Statistics that show the median age of construction workers as a whole exceeds that of many other industries. Considerations need to be given to what the employees of the future are seeking. Companies should prioritize providing varied career paths, an employee wellness focus, enhanced training opportunities and work/life balance. They should also genuinely embrace DEI and sustainability initiatives internally and in the work they do. Companies that do this, as well as optimize the use of technology, will be well positioned to attract and retain the future leaders of the industry. For more information on addressing talent issues in the industry, see page 12.

OPPORTUNITIES AND CHALLENGES IN TODAY'S CURRENT ENVIRONMENT

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Productivity

- While arguments exist surrounding the methodologies used to calculate productivity within the construction industry, BLS statistics consistently show flat to declining total factor productivity over the last several decades.

Strong risk management and workforce productivity maximization are both heavily dependent upon the utilization of technology. Streamlining the use of multiple platforms to enhance communication and data sharing, identifying efficient and effective uses for process automation, artificial intelligence and digital transformation continues to provide benefits to companies embracing their use.

Of course, with technology comes risk. The availability of real time, relevant and accurate information is critical for project management to access project results and identify negative performance trends and issues early, to better manage resources and enhance workforce productivity. More time focused on a formal risk management system and the use of technology in the scoping/bidding process, planning and procurement phases as well as through project performance will enhance productivity and results. For additional information on how a focus on cybersecurity and digital transformation are aiding the industry, see the additional articles on page 9 and 10.

Regulatory

- Increased governmental focus and funding to the industry including passage of recent legislation such as the Infrastructure Investment and Jobs Act, the Inflation Reduction Act and the CHIPS and Science Act which directly and indirectly increase spending impacting the construction industry. As everyone is aware, with increased government funding comes increased regulation.

Implementation of the above-mentioned items in addition to a strong sense of what's materially relevant to your stakeholders from an Environmental, Social, and Governance (ESG) perspective can be a differentiating factor for companies. Working towards adopting a formal ESG program allows companies to convey to the public and anyone they intend to do business with how they focus on topics such as efficient resource utilization, worker safety initiatives and good governance principles. Furthermore, companies doing business with the federal government as either significant or major contractors need to be aware of proposed greenhouse gas (GHG) reporting requirements across Scope 1, 2, and 3. The cost of compliance can be significant, but the cost of noncompliance is even greater. Contact our ESG professionals to help guide you through these questions. For more information on ESG considerations in for the construction industry, see page 21.

8 BONDING AND SURETY TRENDS TO WATCH IN 2023

Ted Petko

In an industry as dynamic and risk-prone as construction, staying abreast of trends is essential for ensuring the company's financial stability and continued growth. Below is an overview of the current trends in surety and bonding that middle-market construction companies should consider when formulating their strategic plans.

1. Digital Transformation in Bonding Processes

One of the most prominent trends in recent years is the digital transformation of bonding processes. Traditional paper-based systems are being replaced with digital platforms that streamline the application, approval and issuance of bonds. Middle-market construction companies should explore adopting these digital tools to reduce paperwork, improve efficiency and reduce turnaround times when obtaining bonds.

2. Increased Focus on ESG Factors

Environmental, Social, and Governance (ESG) factors are gaining traction in the construction industry. Surety providers are placing more emphasis on companies' commitment to sustainability, safety practices and ethical conduct. As part of your strategic planning, consider how your company can align with ESG principles, as this can enhance your bonding capacity and reputation.

3. Cybersecurity and Data Protection

With the increasing reliance on digital platforms, the risk of cyberattacks and data breaches has grown significantly. Construction companies are becoming prime targets for cybercriminals. Investing in robust cybersecurity measures and insurance coverage is crucial for protecting sensitive data and maintaining trust with clients and surety providers.

4. Rising Surety Bond Costs

The cost of obtaining surety bonds has been steadily increasing due to factors like rising construction costs, more stringent underwriting standards, and increased risk awareness. As part of your strategic planning, you should anticipate these rising costs and incorporate them into your project budgets to maintain profitability.

8 BONDING AND SURETY TRENDS TO WATCH IN 2023

Ted Petko

5. Collaboration with Surety Providers

Building strong relationships with surety providers has become increasingly important. Collaborative partnerships can help construction companies access larger bonding capacities and more favorable terms. Consider engaging in regular discussions with your surety provider to understand their requirements and expectations, which can inform your strategic planning.

6. Supply Chain Disruptions

The global supply chain disruptions witnessed in recent times have significantly impacted construction projects, causing delays and cost overruns. As part of your strategic planning, assess supply chain risks and develop contingency plans to mitigate disruptions that could affect your bonding capacity and project timelines.

7. Talent Acquisition and Retention

Securing skilled talent is a growing challenge in the construction industry. Surety providers may inquire about your workforce's expertise and qualifications when evaluating bonding applications. Your strategic plan should include initiatives for talent acquisition, training and retention to demonstrate your company's ability to complete projects successfully.

8. Compliance and Regulatory Changes

Construction companies must remain vigilant about evolving regulations and compliance standards. Failing to adhere to these requirements can lead to bond claims and project delays. Stay informed about regulatory changes and ensure that your strategic plan includes measures to address compliance challenges.

In conclusion, the construction industry is evolving rapidly, and middle-market construction companies must adapt to these changes in their strategic planning. Embracing digital transformation, addressing ESG considerations and enhancing cybersecurity are all vital steps to secure bonding capacity and thrive in a competitive market. Collaborative partnerships with surety providers, proactive supply chain management and a focus on talent acquisition and compliance will further strengthen your company's position.

CYBER CONSIDERATIONS IN CONSTRUCTION

Chelsea Sarnowski

All companies are susceptible to cybersecurity attacks; however, this article focuses on some of the main vulnerabilities within the construction industry, as well as proactive steps that organizations can take to boost cyber defense.

What are some of the most common entry points for threat actors in the construction industry?

Threat actors are always looking for a way in, and the construction industry is a prime target due to the variety of ways their organizations can be attacked, including:

- Construction project management software and SaaS solutions
- Outdated security policies or lack thereof
- Proprietary company software and cloud storage
- Smartphones and laptops – used both at the office and on-site
- Subcontractors, outsourcing jobs can lead to uncertainty and lack of oversight

How can construction companies boost their cybersecurity efforts?

While there is no sure-fire solution to cyber-attacks, there are several best practices companies can take, including:

- Choosing the right software and keeping up to date on security measures/updates
- Conducting a third-party security analysis/risk assessment to develop an appropriate cybersecurity plan
- Creating an incident response plan with a trusted partner to make sure they are prepared for an incident
- For a construction company employing high numbers of workers, each of whom is logging in from a different location, zero trust security can be a good blanket policy that protects widely dispersed points of entry.
- Making employees knowledgeable about cybersecurity/ hosting trainings
- Exploring cyber insurance options
- Setting expectations and ensuring they are followed when dealing with 3rd party vendors

DIGITAL TRANSFORMATION IN CONSTRUCTION

WHY SO MUCH HESITATION?

Chelsea Sarnowski

Why are so many construction companies still reliant on manual processes?

Since investing in enhanced processes and technology most likely means spending money, time and human capital, it's easy for companies to become complacent. However, changes, especially technological changes, are a critical avenue to growth in all aspects of business.

One of the most beneficial measures for catalyzing growth involves using technology to deliver strategic transformative solutions to drive business processes. This is also called digital transformation.

Although this phrase may seem intimidating, this article is intended to demystify the term for Construction professionals. Specifically, we will cover management challenges, technology implementation challenges and the long-term advantage of embracing digital transformation.

Construction clients are traditionally slow to change their processes. Owners generally hesitate to invest resources into new technology, especially if they think their traditional processes are still working. In fact, nearly 40% of construction companies are still using manual methods, including spreadsheets, whiteboards and printed paper.

To illustrate the toll manual processes take on resources in the construction industry, we have listed some of the most common cost management and resource gaps construction companies face due to a lack of investment in digital transformation.

Based on the responses of trade contractors that utilize more than one primary tool, their top five cost management challenges include:

1. Managing change orders and documentation through the whole approval process
2. Status reporting during the project
3. Effectively integrating cost and schedule information
4. Tracking costs for every aspect of the job to determine how they impact overall project costs
5. Tracking units of work completed in the field

DIGITAL TRANSFORMATION IN CONSTRUCTION

WHY SO MUCH HESITATION?

Chelsea Sarnowski

Though there are several challenges associated with adherence to manual processes, a poor technological implementation can bring its own trials. When it comes to implementing construction technology, some of the main challenges include resource availability and capability gaps. The top five challenges include:

1. Too much training required
2. Lack of time to evaluate technology options
3. Lack of internal capability to implement/manage technology
4. Resistance from field staff
5. Lack of senior management support

Given the very real challenges that can come with implementing a new technology, there are certain best practices we use to help make your life easier as you consider and undergo a technology change. These include:

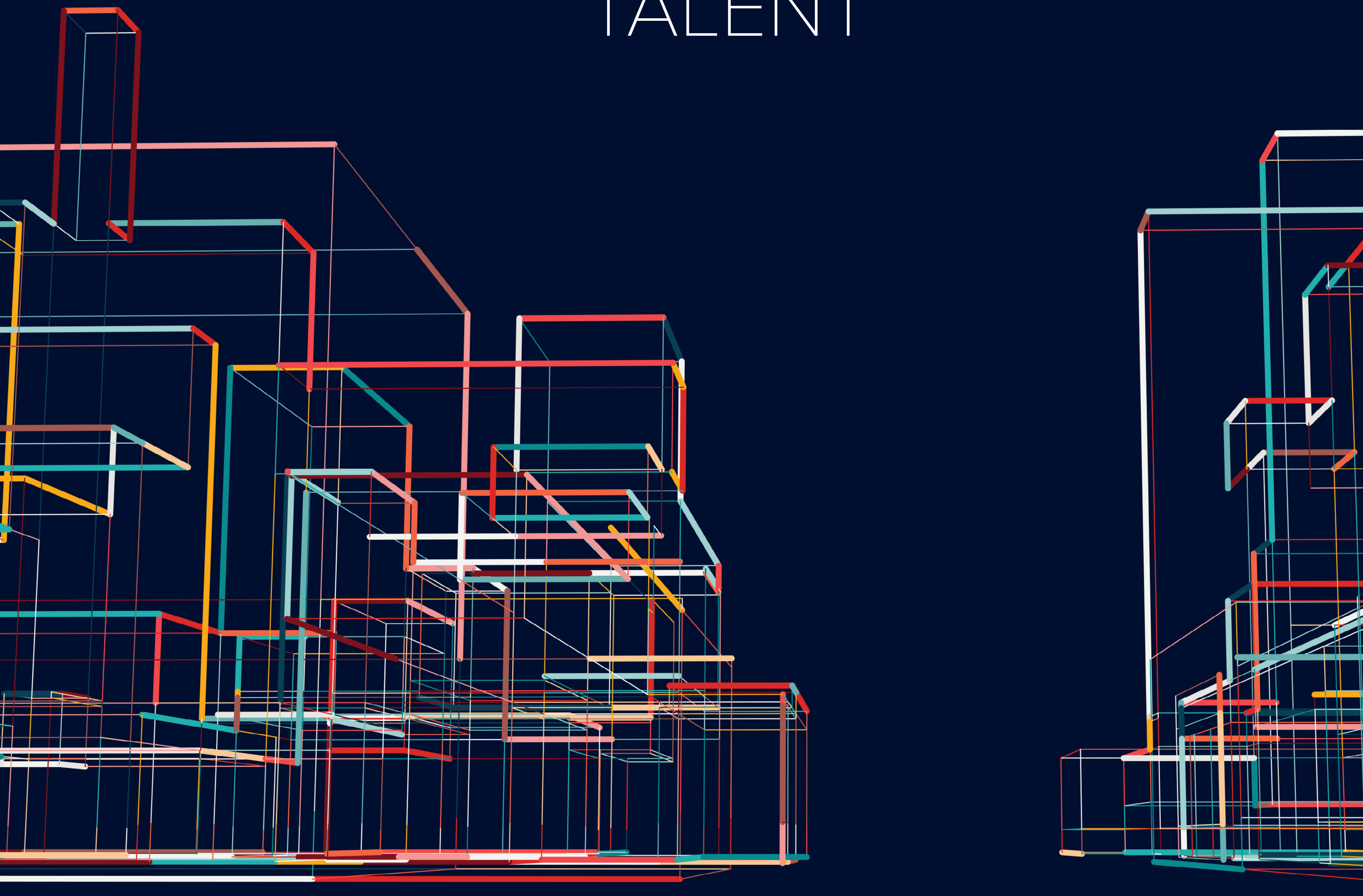
1. Identifying business needs and confirming the technology meets requirements before implementation
2. Developing and following a phased rollout plan that allows for incremental corrections a structured process for engaging all stakeholders
3. Using metrics to determine success against identifiable needs
4. Openly communicating about progress towards mutually understood goals

Due to the expanded capacity afforded by digital transformation, the upfront 'investment' of time needed to implement technology will often ultimately save you time in the long run.

If you have any questions on how digital transformation may benefit your organization, please contact our team at contactsd@schneiderdowns.com or visit our Digital Transformation webpage.

Interested in Digital Transformation in the Construction Industry? Stay tuned for our deep dive into the topic in the next issue of the Construction Financial Management Association's magazine.

TALENT



FOUNDATIONS

Ted Petko

In the post-COVID landscape, a noticeable shift due to talent shortages is that the evaluation process has evolved beyond being a mere interview procedure; it's now a comprehensive recruitment endeavor. Candidates, having multiple employment options, are assessing you as much as you are evaluating them. Thus, the initial step in a strategic approach to talent is to ensure a strong foundation in your recruitment process.

This begins with meticulously crafted job descriptions for each role. For an outsider unfamiliar with your organization, these descriptions should unmistakably outline responsibilities, roles, and performance metrics. We recommend having existing employees draft written job descriptions for all positions. Subsequently, the hiring process should be more robust than simple job postings and interviews. This is your opportunity to impress candidates through effective organization, punctuality, and transparent communication. Implementing these seemingly basic steps can set you apart in the competitive landscape of recruitment.

Moving on from the hiring process, attention should shift to the onboarding procedure. Engage in discussions with recent hires to gain insights from their perspective regarding what aspects were advantageous and where the process fell short. Often, organizations maintain the same onboarding approach for an extended period. This phase presents another avenue to distinguish yourself in the recruitment process.

Finally, when it comes to compensation packages, they should encompass more than just a basic salary. Clearly delineate all offered benefits. An emerging trend includes incorporating deferred compensation or post-employment benefits into compensation packages. A valuable resource in this realm is a member of Schneider Downs Advantage Retirement Solutions, who previously worked for the Internal Revenue Service in this domain. To delve deeper into the subject of deferred compensation, you can explore one of his articles at the following link: Construction Talent Foundations.

RETENTION

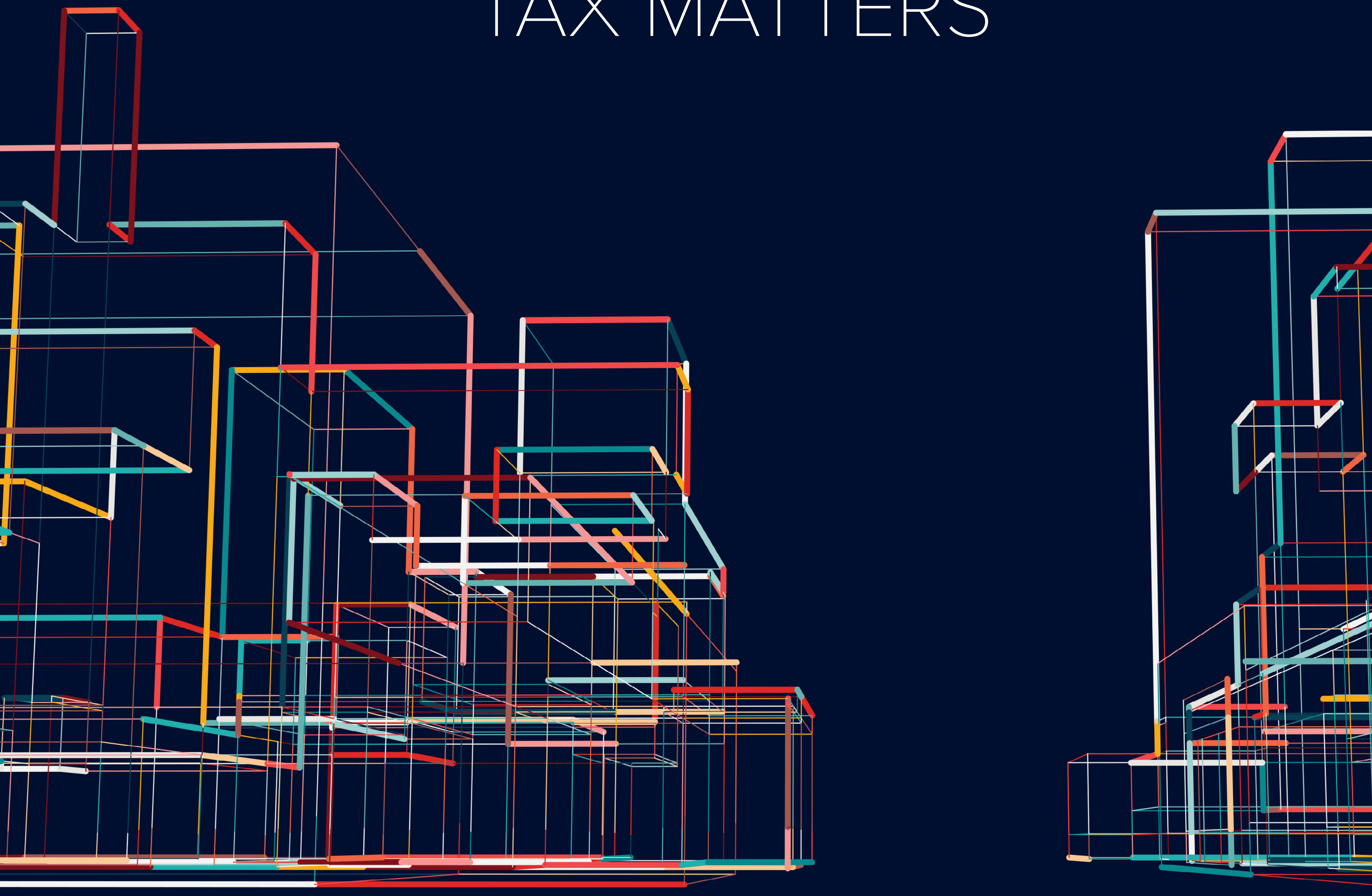
Eugene DeFrank

In the realm of college athletics today, the advent of NIL (Name, Image, Likeness) has led coaches to repeatedly emphasize the need not only to recruit fresh players but also to secure their existing ones before they're lured away by rival teams. This principle resonates in the business world as well. While sourcing talent poses its own challenges, the task of retaining that talent might even be more formidable.

The pursuit of talent retention encompasses a broad spectrum – from the nature of work and work location to professional growth, mentorship, performance assessments, cultural alignment and an array of other factors. Within this domain, our focus here is primarily on the aspect of work. It involves identifying roles that are a perfect fit for both the employee and the employer, forming what we refer to as the "golden triangle." This triangle represents the convergence of tasks that align with the employee's strengths and passions, while concurrently delivering value to the company. It's important to note that this configuration is distinctive for each organization. However, a common thread lies in recognizing and reevaluating non-value-added aspects that impact both the company and its employees. Thoroughly addressing these elements ensures that individuals are assigned tasks that reflect their optimal skills, resulting in a mutually rewarding experience for all parties involved.

Oftentimes, this principle becomes particularly evident during digital transformation initiatives. Mundane tasks that consume valuable time can emerge as bottlenecks that hinder productivity. The solution often lies in automation, liberating employees from these routine tasks and allowing them to channel their efforts into more impactful activities that enhance the company's value proposition. For a more detailed exploration of how our digital transformation team has assisted construction companies in this context, you can find specific examples at the following links: Digital Transformation and the Construction Industry: Combating Challenges and Realizing Benefits, Digital Transformation and The Construction Industry: Digital Workflows and Digital Transformation and the Construction Industry: Technology Adoption Challenges.

TAX MATTERS



CONTRACTORS MAY BENEFIT FROM SALT CAP WORKAROUND

Ryan Bianco

Contractors organized as a pass-through entity (PTE) may be eligible for a sizeable federal income tax benefit on their personal tax returns stemming from a newly created state and local tax (SALT) deduction.

In recent years, a considerable number of states – including Ohio, West Virginia, New York and Maryland – have enacted legislation allowing for such a deduction, which benefits individuals who pay state income taxes in those jurisdictions. With proper planning and tax benefit modeling, businesses can take advantage of the federal tax savings associated with this opportunity.

Background of SALT Cap

A PTE is organized as a partnership, an S corporation or an LLC taxed as either a partnership or an S corporation and is owned – directly or indirectly – by at least one individual, estate or trust. Income is generally passed through to the individual and not taxed at the entity level.

The Tax Cuts and Jobs Act of 2017 (TCJA) created an annual limit of $10,000 on the amount of state and local income tax payments that individuals could deduct for federal income tax purposes (known as the "SALT cap"). Prior to the TCJA, there was no annual limit. In response, 36 states have since created an election to impose state PTE tax at the entity level, as opposed to flowing income through to be taxed on an individual's federal return.

Because there's no SALT cap on the amount of state income taxes an entity can deduct, the electing entity's federal income tax is reduced by the full amount of state and local income taxes paid. The benefit of the state election is passed along to the individual, either by exclusion of income from the individual's federal income tax return or through a tax credit equivalent to the tax paid by the entity. As a result, the individual receives the federal benefit for state taxes paid as if there was no SALT cap in place.

CONTRACTORS MAY BENEFIT FROM SALT CAP WORKAROUND


Ryan Bianco

Requirements vary, depending on the state, and the business structure and location of owners may impact whether the election is beneficial. The level of income generated by each business needs to be considered as well, since some states utilize inconsistent tax rates at the entity and individual levels.

Conclusion

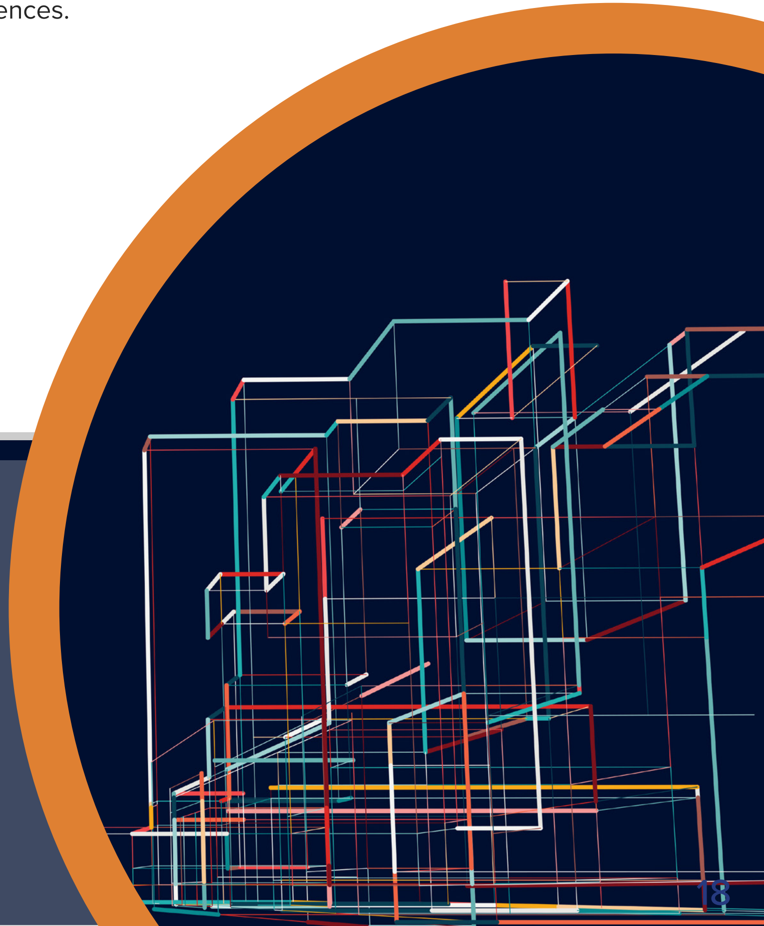
Contractors operating in states where the PTE tax deduction is available may benefit from the election, but a number of factors must be considered, including those mentioned above and a host of other technical considerations. Therefore, careful consideration is required when reviewing whether to make the election, to avoid unintended consequences.

Mark DiPietrantonio and Kirk Mitchell were published in

Breaking Ground Magazine

Financial Perspective
The Inflation Reduction Act and Construction Contractors

SCAN ME



NEW RESEARCH AND DEVELOPMENT CAPITALIZATION REQUIREMENT SHUFFLES SYSTEM

Mark DiPietrantonio

For tax years beginning before January 1, 2022, taxpayers could deduct research and experimental (R&E) costs in the year they were paid or incurred.

For years beginning after December 31, 2021, however, Internal Revenue Code (IRC) Section 174 requires those taxpayers to capitalize “specified R&E expenditures” (including any amount incurred in connection with the development of any software) and amortize the costs over the five-year period beginning with the midpoint of the tax year in which the expenditures are paid or incurred, essentially allowing the taxpayer to deduct 10% of the R&E expenses in Year 1.

A 15-year period (instead of the five-year) applies in the case of any specified R&E expenditures attributable to foreign research (IRC Section 174(a)(2)(B).

As an example, a calendar-year taxpayer typically pays $1,500,000 of specified R&E expenses in a tax year beginning after December 31, 2021. IRC Section 174 now requires that taxpayer to amortize the amount paid ($1,500,000) over 60 months at $25,000 per month in Year 1. The amortization period begins with the midpoint of the tax year in which the expenses are paid or incurred (July), so the taxpayer’s deduction under for the first year would be $150,000.

This new R&E capitalization requirement has surprised some taxpayers and resulted in a significant increase in their taxable income for 2022. In the example above, the taxpayer would have been allowed to deduct the entire $1,500,000 of R&E expenses in a tax year that begins before 2022, but for any tax year beginning after January 1, 2022, the taxpayer’s taxable income is $1,350,000 higher after capitalizing $1,500,000 of R&E expenses and subtracting $150,000 of amortization expense.

Costs Includible for Section 174 Treatment

A good starting point for determining which costs are required to be capitalized under IRC Section 174 is the “qualified research expenditures” that were used to calculate the R&E credit under IRC Section 41 as a conforming amendment to Code Sec. 41(d)(1)(A), which clarifies that after 2021, qualified research relates to R&E expenditures that are amortizable under IRC Section 174. Costs required to be capitalized under IRC Section 174 are even more broad.

The category “specified research or experimental expenditures” used in IRC Section 174 generally includes all costs incurred in the taxpayer’s trade or business related to the development or improvement of a product that would eliminate uncertainty concerning the development or improvement of a product. This includes both direct and indirect costs of carrying out research or experimentation.

NEW RESEARCH AND DEVELOPMENT CAPITALIZATION REQUIREMENT SHUFFLES SYSTEM

Mark DiPietrantonio

An example in the existing regulations – which have yet to be updated to reflect provisions of the current law – includes the following indirect and overhead costs as IRC Section 174 costs to the extent allocable to the research:

- salaries
- utilities (heat, light, power)
- drawings and models
- laboratory materials and other supplies related to research
- depreciation of the building attributable to the project

Other costs also required to be capitalized under IRC Section 174 include:

- 100% of qualified contract research expenses, even though only 65% of these costs are permitted when calculating the R&E credit under IRC Section 41

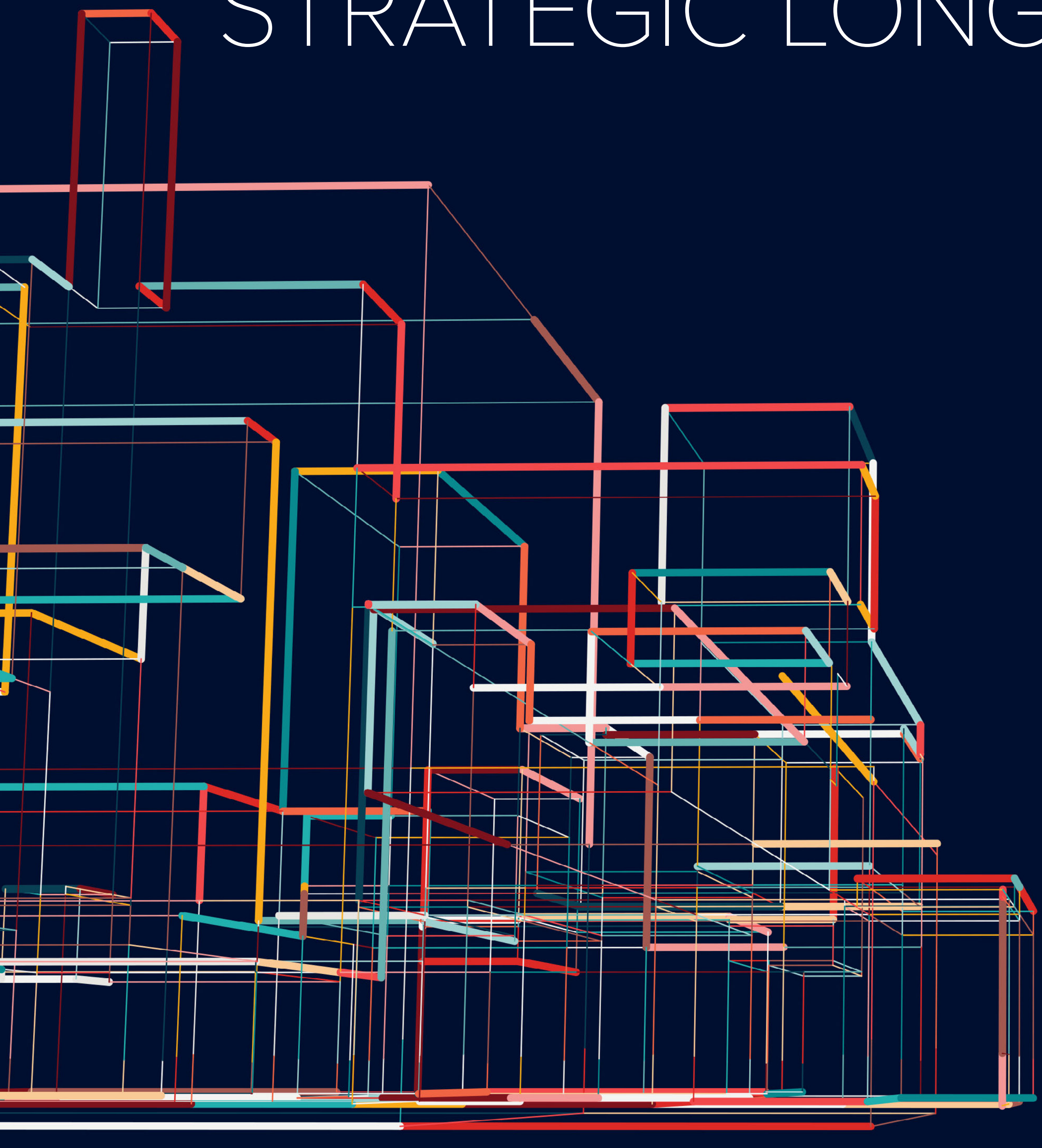
Other indirect costs that may need to be capitalized under Section 174 include:

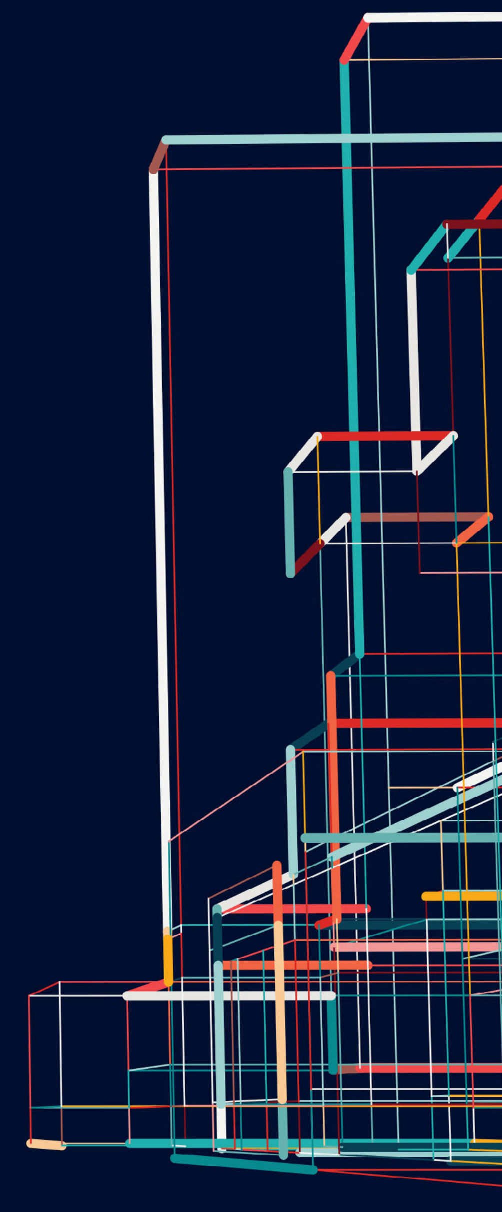
- payroll taxes
- employee benefits
- indirect labor
- rent
- maintenance
- insurance

The change from the ability to fully deduct R&E expenses to being required to capitalize is a change in method of accounting for tax purposes.

The capitalization requirement under IRC Section 174 will likely result in businesses allocating more of their operating cash to fund taxes for years beginning after 2021. It will be critical for taxpayers to consult with their advisors to comply with the requirements of IRC Section 174 and to implement other strategies to minimize their tax liabilities.

STRATEGIC LONG-TERM VISION





ESG IN THE CONSTRUCTION INDUSTRY: ELECTRIFICATION

Matt Hartman

The construction industry plays a critical role in the delivery of key initiatives in the Environmental, Social and Governance ("ESG") space. After all, companies with ambitions to reduce energy consumption via more efficient spaces or lighting, electrifying their company fleet or installing solar panels need expertise from the construction industry to complete those projects most efficiently. Integration of ESG and sustainability factors across the design, materials sourcing and implementation phases of construction allows for input and partnership across the project.

One particular area of opportunity for the construction industry is the prevalence of the electrification theme across sectors. Electrification is seen as a logical step in the advancement of the sustainability industry as it allows for inputs into the energy generation process that are not reliant upon fossil fuels. Many companies and industry bodies, both in the power generation sector and outside it, have made electrification a mainstay in their approach to tackling many ESG topics within the 'E' stripe.
With the passage of the Inflation Reduction Act (IRA) in 2022, a host of incentives were made available to the public and private sector related to electrification. These credits and incentives further strengthened the case for initiatives and programs geared towards electrification.
This article aims to identify the top electrification opportunities, risks, and next steps for companies in the construction industry.

Areas of Opportunity:

1. Electric charging station installation – The Alternative Fuels Data Center[1] lists almost 56,000 Level 2 and DC Fast charging stations in the US; this is an increase of almost 6,000 additional charging stations since the end of 2021. It's not just growth in urban areas either – 92% of the US population now lives within ~6 miles of a charging station. With the continued demand set to increase from a wide range of different applications, construction companies can benefit from this development in multiple ways. First, companies looking to purchase electric construction equipment can be assured that there will be a continued focus on adding additional charging stations in urban, suburban and rural areas. Additionally, companies with the expertise or those looking to develop the expertise to install charging stations will know that the demand for these will be there into the future.
2. Electric vehicle usage in the construction industry – Electric vehicles utilized in the construction industry have two main advantages: one, reduced carbon emissions relative to diesel-based vehicles and two, reduced noise. Based on your client base or the geographic area that you're operating in, these may be significant advantages that can compensate for some of the risks that we've outlined in the next section.
3. Rising fuel costs and greater electrification subsidies and incentives – While diesel prices have decreased from their peak in June 2022, they are still above their five-year average. This paired with the increased availability of subsidies and incentives (based on jurisdiction) has changed the historical cost-benefit analysis that favored diesel over electric

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[1] https://afdc.energy.gov/fuels/electricity_locations.html#/find/nearest?fuel=ELEC&country=US

ESG IN THE CONSTRUCTION INDUSTRY: ELECTRIFICATION

Matt Hartman

Risks

1. Battery capacity within heavy-duty electric vehicles – as it stands today, current battery life for heavy-duty construction application is limited by the efficiency and size of the battery required. This is a space where continued research and development is ongoing to improve life and efficiency but may not be ready for commercial operation yet.
2. Grid readiness for additional electric applications – utilities and transmissions and distributions companies are taking the lead in preparing for a future more attuned to electrification. However, this process will require significant spending and infrastructure upgrades over the next 5-10 years. Existing infrastructure was not built with the idea of a society reliant on electrification for many applications; load management and capacity planning remain key issues that utilities providers need to solve for in this space.
3. Increased regulatory and investor scrutiny around ESG claims – any company that is publicly disclosing ambitions, metrics or targets related to electrification or other ESG data needs to be aware of the potential for regulatory and investor scrutiny of these claims. The SEC has previously mentioned that new rulemaking around greenwashing – or the advertisement of green initiatives without the action to back them up – is not top of mind. However, for companies with a presence in EMEA, there is proposed legislation[2] providing specific rules on ESG claims. Furthermore, any publicly disclosed metric can be utilized by the financial community as an input to investment, credit, and lending decisions. As a result, the accuracy and materiality of these disclosures should be fully vetted by internal or external specialists with the appropriate subject matter expertise.

Next Steps

1. Decide where to focus first – with the utility of electric vehicles in the construction continuing to evolve, it's important to identify which parts of your construction business are best suited to embrace electrification first. It may be a choice to start with a lighter-duty piece of equipment or explore options with a diesel-electric hybrid while batteries continue to become more efficient over the next five years.
2. Determine what SME knowledge you have in-house and where you'll need help – some companies have at least one or perhaps a team of people devoted to their ESG efforts. For other companies, it may make sense to consider whether an outside expert could help with helping to convey the benefit of electrification to your company, understanding the cost-benefit analysis of electrification, or ensuring your data capturing electrification efforts is well-governed. Schneider Downs offers a full suite of ESG services that can help with these and other ESG opportunities.
3. Create a roadmap to implementation – Once you've identified your area of focus and what you'll need to accomplish it, then a roadmap can be created to understand current capabilities and identify where meaningful action can be taken to close gaps.

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[2] https://ec.europa.eu/commission/presscorner/detail/en/ip_23_1692

"CONSTRUCTING" YOUR ESTATE TO MEET YOUR NEEDS

Kari Talliarico Owens

As an owner of a construction company, at some point you will need to determine what the next steps are for your legacy and the business you have built.

It is important to take the time to reflect on your goals and how they will integrate with your estate and succession plans. Creating an estate plan is the best way to protect your business interests and beneficiaries. The main documents used to create an efficient estate plan are:

a. **Last Will and Testament** – document which expresses your wishes as to how your property is distributed after death.

b. **Financial Durable Power of Attorney** – document which names someone to manage your financial affairs.

c. **Healthcare Power of Attorney** – document which names someone to manage your medical decisions and care.

d. **Living Will** – document which allows for you to predetermine your end-of-life care decisions.

c. **Trust Document** – a fiduciary arrangement to hold assets for the benefit of a third party. Trusts help to avoid probate, create asset protection and aim to create estate tax savings. There are many different types of trusts that can be utilized to create the most appropriate estate plan.

The first step in estate planning is to compile a list of your assets, (including business investments, real estate, retirement accounts, etc.) debts and insurance plans, to quantify your net worth. It is important to see how your net worth compares to your lifetime exemption amount. This is the amount of property or cash that you can gift either during your life or at death before having to pay the Federal Estate Tax. As of September 2023, this lifetime exemption amount is currently at $12,920,000 per person (if married you can utilize your spouse's exemption as well for a total of $25,840,000). However, as of January 1, 2026, this amount is set to revert to the exemption amount from 2017, plus inflation (current industry experts estimate the number to be around $7.5 million per person). Any amount left in your estate, depending on the date of death, over these amounts will be subject to a 40% federal estate tax. Accordingly, it is important to begin thinking about how you can transfer your assets to lessen any pending estate tax.

There are two major concerns as it relates to estates subject to the Federal estate tax if not planned for properly. First, the Federal estate tax is due within nine (9) months after a decedent's date of death. This can put severe strain on the fiduciaries to even make the payment in a timely fashion. In addition, the ability to generate the cash needed to pay the estate tax can not only be challenging, but it can also cause assets to potentially be liquidated for less than fair value in a distressed sale. It is common that many business owners do not have sufficient liquid assets to pay the estate tax upon death. Instead, the business that perhaps they wished to be carried on by the next generation is forced to be sold hastily to generate the cash needed to pay the tax, wreaking havoc on the decedent's succession objectives and overall estate value.

“CONSTRUCTING” YOUR ESTATE TO MEET YOUR NEEDS

Kari Talliarico Owens

Some techniques specifically for business owners to avoid the aforementioned issues and utilize the lifetime exemption while it is at its highest level are as follows:

a. **Gifting the annual exclusion amount** – you are entitled to transfer $17,000 (2023 amount) or $34,000 if married, per person per year without using any of your lifetime exclusion.

b. **Gifting highly appreciable assets into a trust or to your children** – by getting these assets out of your estate now, any future appreciation will be tax free upon your passing.

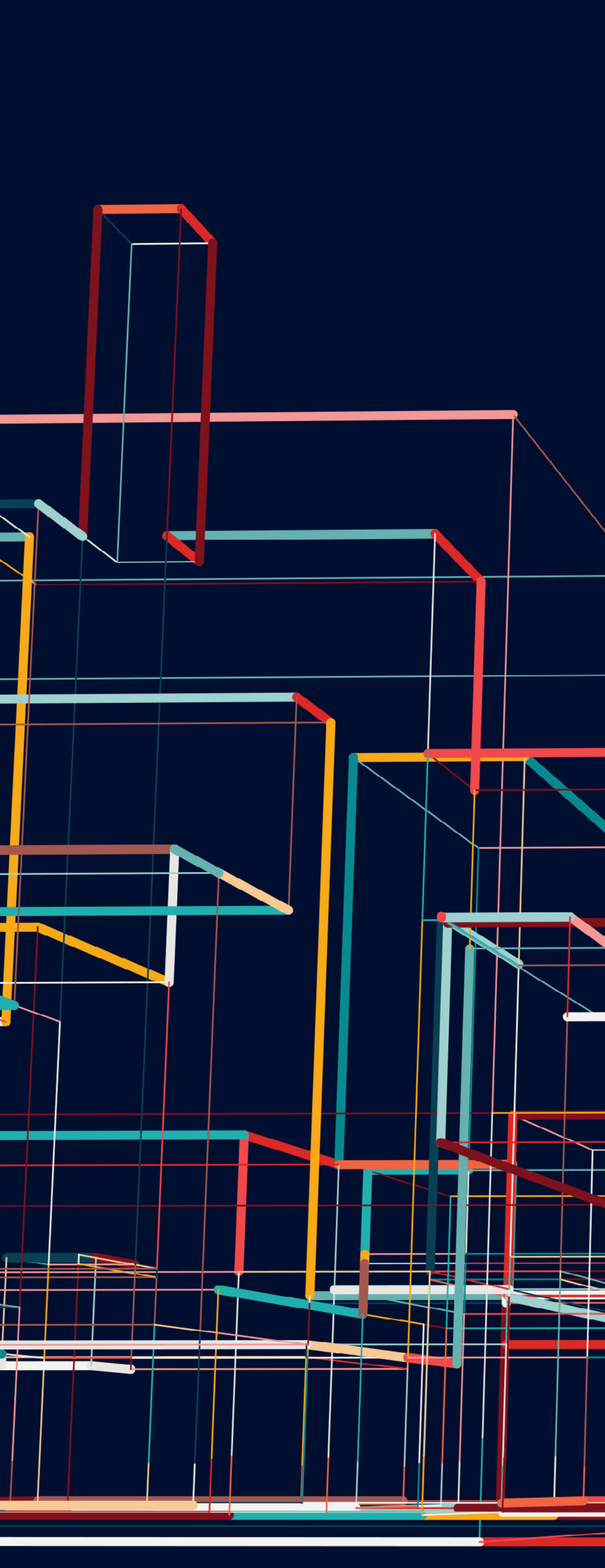
c. **LLC Transfers** – you can transfer ownership of assets (marketable securities, investment properties, etc.) into a single member LLC, which can then be gifted to a trust or your children. If done correctly, you can likely take valuation discounts on the interests gifted.

d. **Spousal Lifetime Access Trust** – “SLATs” – assets are placed in an irrevocable trust for a donor’s spouse, the beneficiary spouse can receive distributions, and the trust is excluded from the donor’s and donee’s gross estate upon either of their passings.

e. **Grantor Retained Annuity Trusts** – “GRATs” - assets are placed in trust for a set number of years. During this time, the grantor is entitled to a rate of return. When the GRAT term expires, the leftover assets are given to the grantor’s beneficiaries.

It’s equally as important to be thinking about how your estate plan coincides with the future of your business. The term succession planning is used to describe an exit strategy from a business so that it can continue to run smoothly or be wrapped up successfully. There are four main pillars of succession planning are: (1) merger, (2) inter-company or inter-familial transition, (3) sale and (4) dissolution. A succession plan usually runs congruently with an estate plan.

A merger (two or more businesses consolidating) or a transition (leaving the business to someone you trust) keeps the company running and can be used to produce passive income during your retirement. These work well when looking to continue the viability of the business. If you are looking to truly exit – a sale or dissolution may be more in line with your goals. To review a more detailed analysis on this topic, head over to our website to read You, Your Exit Plan and Your Options.



SCHNEIDER DOWNS CONSTRUCTION INDUSTRY GROUP

About Schneider Downs Construction Services

Led by a diverse group of shareholders and managers, Schneider Downs provides strategic and practical solutions for our construction clients in all facets of their business. Our dedicated team of more than 500 professionals have a wide background of tax, accounting, technological and business experience in the region, specifically in Pittsburgh and Columbus. To learn more, visit our Construction Industry Group page.

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