



CONSTRUCTION NEWS YOU CAN USE

Volume II - December 2016

UPCOMING EVENTS

JANUARY 13 - CLASSES start in Tampa and Orlando for students taking a FEBRUARY paper and pencil technical exam

FEBRUARY 21 - TECHNICAL EXAM for Builder, Residential, Air Conditioning A, Mechanical, and Plumbing license categories

FEBRUARY 22 - TECHNICAL EXAM for General license category

MARCH 3 - CLASSES start in Ft. Myers for students taking an APRIL paper and pencil technical exam

APRIL 11 - TECHNICAL EXAM for Builder, Residential, Air Conditioning A, Mechanical, and Plumbing license categories

APRIL 12 - TECHNICAL EXAM for General license category



News from ...

Military Veterans

Beginning July 1, 2016 new provisions went into effect to assist U.S. Military Veterans applying for licensure. The new provisions specifically allow for experience gained in the military to be used toward the requirements for licensure. Up to three years of military experience can be applied toward the experience requirements for a certified contractor's license.

New forms were posted on July 1, 2016 for veterans to use when applying for licensure.

Veterans should submit the Veteran Fee Waiver and Military Service Verification Form along with the application for licensure.



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As the year comes to a close, it's tax time! How a construction contracting company is positioned and what tax planning techniques were implemented, if any, are key in filing for year-end. While it's no secret IRS regulations are complex in the area of construction, there are several accounting methods contractors can choose from when calculating taxable income.



Contractors with average annual gross receipts for the last three years higher than \$10 million are required to use percentage of completion for an accounting method on long-term contracts. While this method is preferred, as it is a more precise matching mechanism of revenues to costs incurred, the percentage of completion method when employed properly under code section 460 can help contractors postpone paying income taxes (i.e., create a tax deferral). As a financial strategy, using income tax deferrals helps the contractor keep more cash on hand to help run the day-to-day business operations. Deferring income to postpone remittance of income taxes is a business strategy of which all contractors should take advantage.

Following are three important tax planning techniques for construction contractors.

UNDERSTAND YOUR DEFERRAL BY REVIEWING THE PRIOR YEAR'S INCOME TAX RETURN AND WORK PAPERS

First and foremost, make sure the income tax reporting method being used is correct. Using the right method is the only way to increase, decrease or maintain a valid deferral. Be sure to consult with your tax advisor. The simplest way to do this is to double check the average annual gross. Remember the key indicator: average annual gross receipts for the last three years of \$10 million or more.

If the proper method is still in place, then identify the prior year income deferred. This is important because the income deferral is recalculated annually, and deferred income in one year is unwound and recognized in the following year. Any current year deferral is then used to offset the prior year recognition.

MARRY YOUR FINANCIAL AND INCOME TAX STRATEGIES

Consider your current year financial strategy and position. Your financial strategy should include having cash on hand for day-to-day operations, a positive financial statement presentation for sureties, bankers and other creditors, and positive ratios to support the procurement of additional work.

Remember, a balance sheet is a snapshot in time; if there is a cash-intensive project or an investment in equipment on the horizon, an increase in the income deferral might be necessary to help support an anticipated cash outlay.

While income deferrals under the IRC are re-computed annually, they do exist on a job-by-job basis. When increasing or maintaining deferrals, it's important to ensure there is appropriate backlog in place supporting the deferral. A deferral is only a timing difference and it will unwind completely when there is no work on hand to be performed, the effect of which will be an income tax liability whereby there is no income to fund. This is one reason tax planning is so important.

It is also imperative to remember the contractors' corporate income tax return has an impact on the owner(s) individual income tax return in flow-through situations. Consider the income (losses) of affiliates and other interests of the owner(s) when considering current year deferral possibilities.

THERE ARE OPPORTUNITIES FOR NON-DEFERRAL-BASED INCOME TAX SAVINGS

Consider favorable timing differences such as the purchase of qualified machinery and equipment that could be eligible for bonus depreciation and section 179 depreciation (assuming both are extended for 2016). There is also an array of potential income tax credits available to the construction contractor, such as Research & Development and Fuel. A credit is a real dollar-for-dollar reduction in the taxpayer's liability.

Tax time doesn't have to be dreadful for construction contractors. Reach out to your accountant and financial advisors to learn about possible tax breaks and best practices for the upcoming year to properly position your company for the best possible financial outcome at year-end. A little planning upfront can yield in great dividends in the end. As the saying goes, "pay now or pay later."

Running a contracting business is hard work. Every project is different and will see to its own share of slip ups and obstacles that you will need to know how to manage properly and overcome in a professional manner. If you are looking to start a contracting company, have recently done so, or are a veteran of the business, it doesn't hurt to check out some tips and tricks regarding how to make your business run more successfully and smoothly. Even when a job is easy, running a contracting business is a constant uphill battle, so it helps to know how to minimize the bumps you'll undoubtedly experience along the way. Being prepared is a great way to start.



Hire Talented Workers

If you are a small contracting business, it may be tempting to hire whoever will work for the cheapest amount of money. While this may sound like a great way to save you money, it will only end up costing you money. You can always hire people with little experience and train them, but realize that extensive training takes time and time is money. Also, if you are working with untalented and unknowledgeable workers, then you are likely to produce sub-par work. As a contractor, you want to produce the best output possible. Hiring people who have experience in one way or another is always the better option. That doesn't mean that you should only hire savants and prodigies however. You will want to hire creative and talented people who have at least some knowledge of the work that you do. That way, you know that you can train them, that they are open to new ideas, and that they can provide some valuable input on their own, too. You want to create a stellar team that will produce stellar work. Sure, some workers will take some learning and getting used to, but hire people that you know are cut out for the job and will really thrive under pressure.

Marketing is a Big Part of the Job

Advertising your services is not just an important aspect when it comes to getting projects to work on, but it is key when it comes to getting better projects period. If you focus on your marketing well enough, you can be sure to get better clients with better projects – which means better pay and a better looking portfolio of work for your contracting business' website, which is also integral to your marketing campaign. Everything comes full circle. When marketing, whether you are drawing up a flyer, brochure, or working on your company's website, you need to keep several things in mind at all times. Your main question is: Who is my target audience? Once you have pinpointed the kind of customer you want to attract and the sort of projects you can complete, you can begin to ask, and answer, further questions: What truly motivates my key demographic? What are they looking for? And where can they best reach me? Using all of this information, you can begin curating a marketing plan that best adheres to the sorts of customers and clients you are looking to attract.

Make Sure Your Expenditures Deliver a Measurable Return

Ideally, you will want to make money and be able to pay your workers, right? When someone gives you a budget, it really helps to know how to work with what you have and to be inventive and innovative, as well. The problem with many small businesses, especially people in construction or labor, they end up failing to focus on ROI or Return on Investment because they just aren't "numbers people" but budgeting and planning can be a lot easier than you think. First, it helps to plan things out beforehand. If there are hiccups along the way, you will need to keep track of your expenses and make sure that you are making the most monetarily sound decision possible. Another way to increase ROI, or at least keep it steady, is to provide excellent customer service. Customer service is key when it comes to keeping customers, and having a reliable set of return customers is a great way to keep you in business. While you will always want to be marketing and advertising for more customers and more work, by providing excellent customer service you can rely on the people for whom you have worked before and know that they will put in a good word, too.

Keep Track of Your Cash

One of the major pitfalls businesses fall into is poor cash flow. Losing track of when and where your business spends its money is an easy way to lose it, period. That's why the best way to ensure that you make the most of your work is to document everything, stay on top of billing and to set reminders if you owe something or are owed something. It also helps to stay on schedule and check in with your clients, as well. Provide them with updates and ensure that their wishes are being met. A happy client is a paying one.

Document Everything

Keeping accurate records is absolutely key to running any business, ever. Not only is it a great practice to implement if you want to stay organized, but it's actually necessary in some areas like filing taxes. Keeping documents also helps you stay on track project-wise, too. Knowing what materials you have, when they were purchased and for how much can be vital half-way through a job where some changes need to be made and you need to make sure that you stay on budget. It can also be vital in the event that you lose track of something, too, and can help point you in the right direction.

Plan for Everything

A last minute purchase that requires overnight shipping can start out costing you \$5 but ends up totaling somewhere in the \$500 range instead. Making sure that you have everything planned out ahead of time makes even dealing with small hiccups and oversights much easier in the long run. If you go in prepared and make sure that you don't complete aspects of your project at the last minute, you are more likely to make more money and deliver a product that you are proud of. Poor planning and procrastinating doesn't just give you a headache as a contracting business owner and operator, but the projects you work on, your clients, and your workers will all suffer for it as well.

The key to all of these tips is to stay focused and organized. Keeping track of every aspect of your project may seem dreary and uninteresting, and maybe even a nuisance, but it truly isn't. In order to make a return on a project, it helps to stay on task, on time and on budget and to use the skills you have at your disposal to the best of your ability.

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FINANCIAL RESPONSIBILITY AND STABILITY REQUIREMENTS FOR CONTRACTOR APPLICANTS

Florida Law requires all construction contractor applicants to establish that they are both financially responsible and financially stable prior to issuance of their licenses.

Does your submitted credit report show a credit score of 660 or higher? If you have applied for your Florida State Contractor's License and you do not have a minimum credit score of 660, you will be required to secure a Financial Stability Bond.

Without proof of completion of an approved 14-hour financial responsibility course, you will need to secure a bond in the amount of:

- \$20,000 for Division I applicants
- \$10,000 for Division II applicants

But, if you want to cut that bond in half, you can take Cam Tech's 14-hour Financial Responsibility & Stability Course.

With proof of completion of our approved financial responsibility course, you can reduce your bond amount to:

- \$10,000 for Division I applicants
- \$5,000 for Division II applicants

Cam Tech is offering our online "Financial Responsibility & Stability for the Contractor" course for just \$149.

In taking this course, you will gain useful information for today's contractor in today's economy. Don't just get your 14 hours; walk away equipped with the knowledge you need to become a responsible, successful business owner and even gain useful knowledge about personal finances.

Sign up and take our online 14-hour Financial Responsibility & Stability Course at your convenience. Our course is approved by the DBPR (Course #0609924) and covers all required categories. Upon completion, a Certificate of Completion will be issued to be included in your application package.

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