

CONSTRUCTION INSIDER

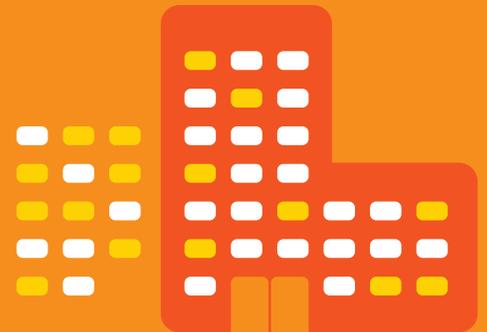
VOLUME 11 :: ISSUE 2

In This Issue:

Tax Cuts And Jobs Act: Tax Reform Changes Available to the Construction Industry

Changes to the Michigan Construction Lien Act

Enbridge to Replace Line 5 Oil Pipeline in Deal With State of Michigan



TAX CUTS AND JOBS ACT: TAX REFORM CHANGES AVAILABLE TO THE CONSTRUCTION INDUSTRY

Tax year 2018 has wrapped up, and tax return filing season has begun. This is the first year the new tax laws put into place in December 2017 took effect. There are several items that could affect construction contractors, the following is just a few:

- **Cash basis eligibility** – In the past, if average gross receipts for the prior three years fell above \$10 million, an entity was required to report income on an accrual basis. Now, if average gross receipts fall below \$25 million an entity can report income on a cash basis. This is a great opportunity to defer picking up and paying taxes on income that is sitting in your accounts receivable balance.
- **Reporting of long-term contracts** – Many contractors are required to report income on a Percentage-of-Completion method of accounting, meaning they are required to pick up and pay tax on a percentage of income from jobs currently in process. This threshold has also been increased to \$25 million. If average gross receipts for the prior three years fall below \$25 million, an entity can now report income on the Completed Contract Method. This means that tax does not have to be paid on a project until the year it is complete. This is another great opportunity to defer income into the following year.

- **Flow-through entity 20 percent deduction** – S corporations and partnerships are considered flow-through entities for tax reporting. These entities have been given a deduction on all qualified business income that will reduce taxable income from the entity up to 20 percent, requiring tax to be paid only on the remaining 80 percent. There are certain thresholds and limitations to meet the full 20 percent, please consult your tax advisor to be sure you are taking advantage of the greatest deduction available.
- **Corporate tax rate of 21 percent** - With the change of the corporate tax rate to 21 percent, many taxpayers should reconsider their flow entity and if it makes sense to switch their entity type. There are complex tax rules to convert an entity and other “non-tax” issues to consider before switching. Consulting with your CPA advisor and having a discussion is a must.

Other changes to note includes updates to:

- Deductibility of meals & entertainment
- Limitations on interest expense
- New partnership representative responsibilities

The recently passed tax act is the most significant tax reform since 1986! For all reasons above, speak with your UHY tax advisor to be sure you are in accordance with the new law and taking full advantage of tax savings available to you.

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of service*

CHANGES TO THE MICHIGAN CONSTRUCTION LIEN ACT



On Dec. 12, 2018, The Michigan Legislature made a significant change to the Michigan Construction Lien Act, which will take immediate effect, to allow for design professionals, defined as architects, professional engineers, servers, and their subcontractors, to now record liens for design services performed prior to the first physical improvement made to a property.

1. Design professional or its subcontractor must record a "Notice of Contract" after executing a contract for its services, but before the first physical improvement to the property.
2. The design services performed must have been authorized in writing by the owner.

3. The Notice of Contract is effective from the date it was recorded and the lien it establishes takes priority over any subsequently recorded mortgage (as long as **no** physical improvement is made).

Design professionals may have a lien for preconstruction services they perform, regardless of whether a physical improvement to the property ever occurs. This change does not, however afford the same right to construction managers, trade contractors or suppliers who perform the same task.

Whether you are a contractor design professional, a subcontractor, or a contractor; it is important to know your rights before, during, and after a construction project.



The Michigan Legislature made a significant change to the Michigan Construction Lien Act.



ENBRIDGE TO REPLACE LINE 5 OIL PIPELINE IN DEAL WITH STATE OF MICHIGAN

We all know how important the well-being of the Great Lakes are to Michiganders. Currently, there is a potential threat of an oil spill that could destroy hundreds of miles of shorelines and damage lakes due to 65 year old twin crude oil pipes that are located at the bottom of the straits of Mackinac. The owner of these crude oil pipes is the Canadian pipeline giant; Enbridge. In the past, Enbridge has remained confident that there haven't been any issues with the current pipelines, but have since doubted themselves after discovering the protective coatings have worn off and with the recent damages from a ship anchor.

In October 2018, Enbridge and the State of Michigan announced an engineering project plan that would retire the pipes and install a new line that would cost the company \$350 million to \$500 million. The plan would also include the bridge authority assisting Enbridge with obtaining permits and have complete ownership until the new line is completed. The bridge authority will also be leasing the pipeline to Enbridge to ensure any agreements, provisions, inspections and precautions are in place if there are any issues with the pipeline replacement.

An area of the agreement that remains open is if the twin pipelines would eventually be taken down in their entirety after the new lines are installed. Environmental groups have been criticizing the agreement and believe the process is taking too long since further negotiations are needed and would like the oil transit through the straits to be shut down indefinitely. Since the announced plan was under former Michigan Governor Rick Snyder's administration, we will have to anxiously await Governor Gretchen Whitmer's plan of action. Stay tuned for updates on this important issue.



CONSTRUCTION INDUSTRY INSIGHT

UHY LLP's National Construction Practice is comprised of the country's foremost experts in regards to audit and assurance, tax planning and compliance, and business advisory services for the construction industry. We work with a wide range of key industry segments including general contractors, underground contractors, underwater construction, tunnel, and bridge and heavy highway contractors.

As active members of various national, state and local construction associations, state housing councils and specialty trade groups, our team keeps alert to industry trends and opportunities. Our

professionals are leaders in the industry and take the steps necessary to ensure our client's future success by identifying and addressing new accounting requirements and regulations. You can depend on us to anticipate major industry issues that might impact your company and help you structure workable solutions.

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