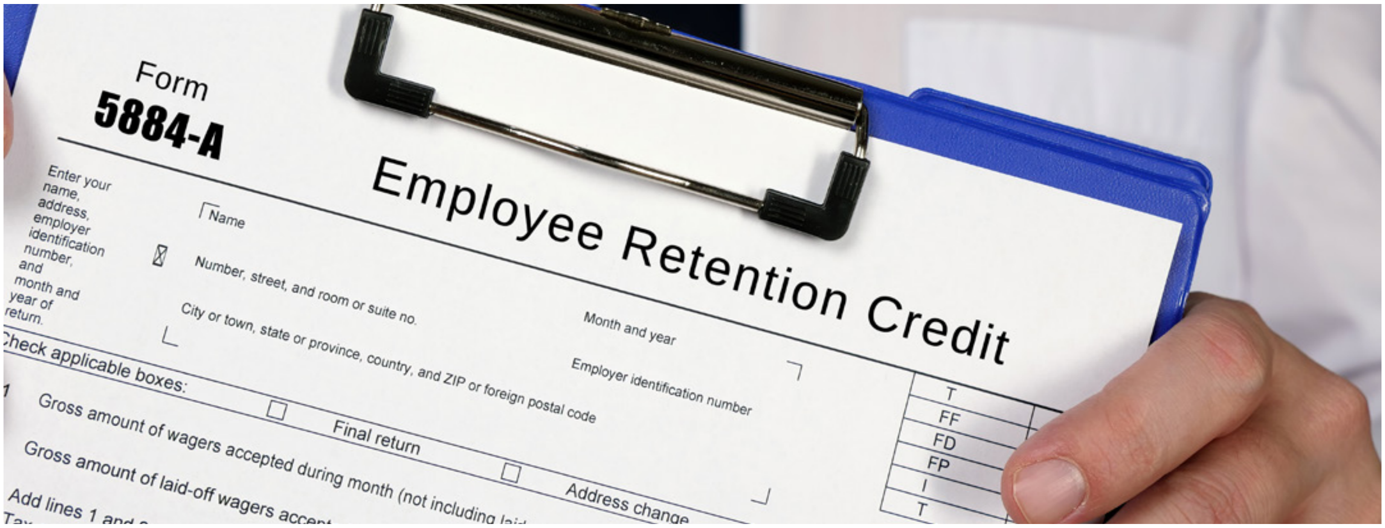
UHY LLP
Certified Public Accountants

CONSTRUCTION INSIDER

VOLUME 12 :: ISSUE 3



ENHANCED ELIGIBILITY FOR THE EMPLOYEE RETENTION CREDIT

Formerly under the Employee Retention Credit (ERC), if a company received a Paycheck Protection Program (PPP) loan, the company was ineligible to receive the ERC. Now, thanks to the Consolidated Appropriations Act of 2021 and the American Rescue Plan Act, a company can now receive the ERC for the last three quarters of 2020 as well as all four quarters of 2021.

Who is eligible?

As applied to 2020, eligible employers are those that (1) fully/partially suspended operations due to a governmental order and (2) had gross receipts in a quarter for 2020 that were less than 50% of its gross receipts for the same quarter in 2019.

As applied to 2021, eligible employers are those that (1) fully/partially suspended operations due to a governmental order and (2) had gross receipts in a quarter that are less than 80% of its gross receipts for the same quarter in 2019.

How much ERC can an employer receive?

For 2020, an employer can receive 50% of the first $10,000 of qualified wages per employee in the aggregate for all qualifying quarters ($5,000 for the full year in total, per employee).

For 2021, an employer can receive 70% of the first $10,000 of qualified wages per employee for all qualifying quarters ($28,000 for the full year in total, per employee).

Continued on page 2...

Continued from page 1...

Are you a small or large employer?

For purposes of the ERC, you are considered a small employer in 2020 if in 2019 you averaged 100 or fewer full-time employees. As applied to 2021, you are considered a small employer if you averaged 500 or fewer full-time employees in 2019. You are considered to be a large employer if you exceed either of these thresholds for their respective years.

What are "qualified wages"?

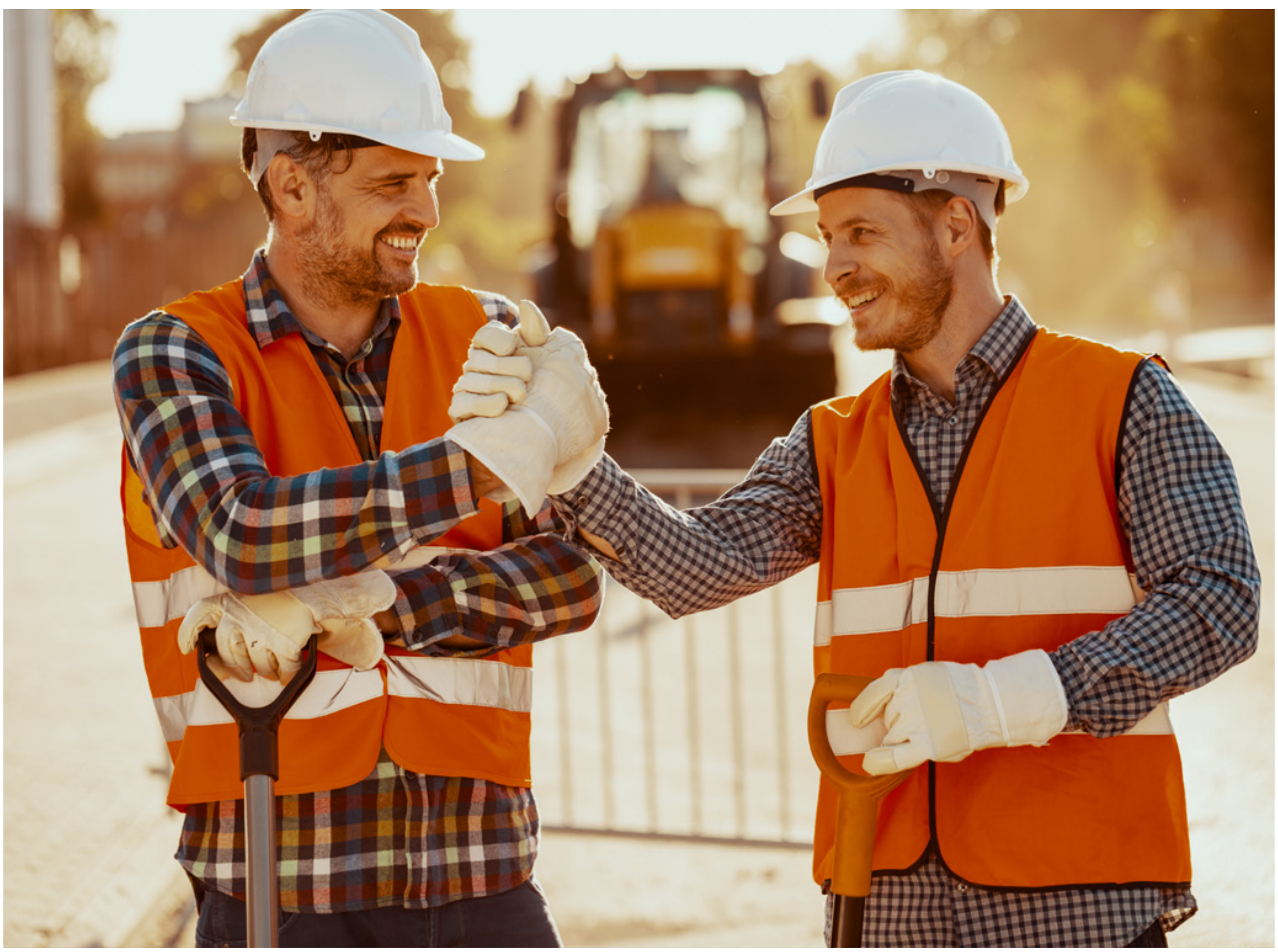
Per above, if you have qualified as a small employer, qualified wages are those that are wages and compensation, as well as qualified health plan expenses paid for employees for the quarter. For large employers, qualified wages are wages and compensation as well as qualified health plan expenses paid for employees but only for periods that the employee did not perform services for the employer.

What is different?

While an employer can now receive both a PPP loan and ERC credit, the wages used to qualify for a PPP loan cannot be used again to qualify for the ERC. There are three scenarios in which an ERC credit would now be available where formerly it would not: (1) a controlled group member received a PPP loan, but a member of the same controlled group that did not receive a PPP loan can now claim an ERC, (2) the employer's qualified wages were not paid by the proceeds of the PPP loan, and (3) the employer's qualified wages were covered by the PPP loan proceeds, but forgiveness was not obtained.

What are the next steps for employers?

Companies should revisit their 2020 2nd-4th quarter eligibility, as well as 2021 1st and 2nd quarters now that ERC and PPP rules have changed. Going forward, companies should plan accordingly and monitor eligibility for receiving both the ERC credit and a PPP loan, ensuring the same employee wages do not overlap both opportunities. The above discusses basics; however, there are multiple scenarios and ways to qualify. As it is a complicated area, make sure to reach out to a UHY representative to discuss further.



THE UNITED STATES INVESTMENT FOR THE FUTURE

On June 24, President Biden announced a $1.2 trillion plan to update the nation's infrastructure, which he defined as "a once-in-a-generation investment in America". The plan would upgrade 20,000 miles of roads, 10,000 bridges, including the top ten most economically important bridges, fight against climate change, and promote racial equality. While initially to be funded by the increase in taxes, President Biden announced funding would be sourced through reducing the IRS tax gap, repurposing unused relief funds from 2020, redirecting unused unemployment insurance relief funds, private activity bonds, and several other options.

In an effort to promote an economically conscious nation, the plan includes a focus on climate change that plans to construct roads, bridges, and airports that would be able to combat extreme storms, floods, and fires. With over $100 billion in spending on research and development planned, breakthroughs in green technology are expected to influence the industry in the construction of new, energy efficient buildings.

Other goals of the plan include improving and updating the electric grid, which is in response to the state-wide blackouts in Texas, as well as modernizing transportation by stimulating the electric car industry. This plan's overall goal is to make the purchase and upkeep of electric cars cheaper for the common buyer as well as granting tax credits and incentives to electric vehicle manufacturers. The deal aims to build 500,000 electric vehicle chargers along highways. A key focus of the deal is to benefit disadvantaged communities by eliminating lead water pipes and delivering drinking water to millions of American families and hundreds of thousands of schools. Lastly, the deal looks to provide high-speed internet to every American while also decreasing the current cost of attaining internet.

While the Infrastructure Deal still has several key hurdles such as funding, training, and bipartisan agreement, there is hope that the deal could be agreed upon in a reasonable amount of time as there is not a strong opposition from either side now that Biden retracted his plan of tax rate increases. The new deal would stimulate the economy while also creating many jobs and opportunity within the construction industry. Please make sure to look for future updates from UHY.

> "On June 24, President Biden announced a $1.2 trillion plan to update the nation's infrastructure."

NAVIGATING THE CHANGES IN ACCOUNTING FOR OPERATING LEASES

ASC 842 is a new leasing standard that specifies how leases should be classified (operating, financing, or short-term). With the implementation of the new standard beginning January 1, 2022 for private and non-profit companies, lessees are to retain a two-model approach that classifies all leases as either financing or operating, which will both be presented on the financial statements as lease expense for operating leases and interest expense/ amortization expense for financing leases. Below are a few effects that ASC 842 could have on your company and should be planned for accordingly.

1. **Record-keeping**
   Implementation of the standard requires enhanced record-keeping. This process involves reviewing contracts/agreements as well as calculating and recording the right-of-use asset and lease liability components. Companies that are not adept to bookkeeping often choose to use software to track and record leasing solutions.

   Companies will also need to review their service/supply contracts to search for embedded leases, which occur when the company can specify the asset provided in the contract.

2. **Financial statement disclosures**
   Under the new lease standard, additional financial statement disclosures are required to provide financial statement users information regarding lease-related amounts. Not only will companies need to disclose the specific leases they are in contract with, but will also need to disclose the assumptions/judgments, total lease costs, term, liability balance, and discount rate. Under the former lease accounting standard, there were certain requirements between operating and capital leases, but not near to the extent of the new standard.

3. **Debt covenant compliance**
   With leases being reflected on the balance sheet now as a right-of-use asset and liability, financial covenants are directly affected. As current assets and liabilities are increased disproportionately, working capital ratios can be expected to decrease as the entire asset would be long-term in nature, while the liability would be shared between a current and non-current portion. With the related lease liability, any debt ratios such as total debt and debt to equity can be expected to increase. These results can negatively impact a company's standing with their covenants and could hurt the company's chances of borrowing again. Management should plan in advance to counter-act the negative effects that the standard might have on covenants and financial ratios.

Next steps

There are many variables to consider when it comes to this new standard; however, one can select some practical expedients that will simplify some areas of the adoption. First, a company can elect to not reassess the lease classification and to maintain its original classification. A company would want to assess the advantages of specific lease classification and if it would benefit to either change or to keep current classifications. Under the hindsight practical expedient, companies can determine the outcome of lease renewals, terminations, or purchases that were previously evaluated. Under the land easement expedient, companies can elect to not apply the new standard if land easements were previously accounted for under guidance other than the previous standard, ASC 840. Companies can also determine whether to use either the risk-free discount rate option or the rate implicit to the lease. Using the risk-free rate will help facilitate smooth adoption of the standard, however, can result in the triggering of a financing lease by creating a larger right-of-use asset and lease liability. Do not forget to reach out to your local UHY advisor to see how this may affect you.

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.

OUR LOCATIONS

We have ample locations across the country with a heavy regional presence in the Great Lakes, Mid-Atlantic, Midwest and Northeast. Visit uhy-us.com to find an office near you.