

# ON-SITE

EMPLOYER-OWNED VEHICLES

Are your employees getting a free ride?

Get smart: Integrate software to streamline jobs

Quality counts when it comes to building your business

SSTP could cost you \$\$\$

PLUS!

Futurescope:

How to get land acquisition loans in a tough market

SUMMER 2006

Meet Jeff Greenway...Expand Your Profitability With Additional Construction Services...details inside

# Elliott Davis

Accountants and Business Advisors

[www.elliottdavis.com](http://www.elliottdavis.com)

# Are your employees getting a free ride?

It's a common practice for contractors to provide key employees with company-owned vehicles to use when traveling among job sites. The business can depreciate the vehicles, and the employees don't have to put heavy miles on their own cars.

If employees also use the vehicles for personal reasons, however, the vehicles are fringe benefits that must be taxed — and it's up to the contractor to withhold the proper amounts.

## It can get taxing at times

If you're in this situation, you'll need to know the fair market value of the vehicles being used by your employees and what percentage of the time they're being used for personal purposes. There are several ways to account for employer-provided vehicles, and you may want to consult a financial professional about which is best for you.

The most common methods include:

**General valuation.** In general, the fair market value of a vehicle is the amount an employee would have to pay a third party to buy or lease the vehicle. For tax purposes, you may add the value of the vehicle to the employee's regular compensation and withhold the necessary taxes (FICA, federal income and unemployment) on that amount. The employee then can deduct the amount of business use on his or her personal tax return.

*There are several ways to account for employer-provided vehicles, and you may want to consult a financial professional about which is best for you.*

With this method, the employee doesn't have to submit weekly or monthly mileage reports, which reduces your recordkeeping duties. Instead, the employee is responsible for calculating and



recording nonbusiness use of the vehicle for his or her own tax purposes.

**Cents-per-mile.** It may be financially advantageous for you to use the cents-per-mile rule to determine the value of the vehicles you provide for employees. With this method, you calculate the fair market value by multiplying the standard mileage rate (44.5 cents per mile for 2006) by the total miles the employee drives for personal purposes. The cents-per-mile rate includes fuel, maintenance and insurance on the vehicle, but you may reduce it by up to 5.5 cents if you don't provide fuel.

Some vehicles don't qualify for the cents-per-mile valuation. For 2006, cars worth more than \$15,000 and trucks and vans worth more than \$16,400 fit this category. And, if the vehicle is driven less than 10,000 miles during the year, it won't qualify.

With this method, employees must submit mileage reports so you can calculate fair market value and adjust the employees' withholding accordingly. Because you can't determine fair market value until the end of the month, you can — for tax purposes — treat the value of benefits paid in the last two months of a calendar year as being paid in the next year.

**Commuting rule.** Under this rule, each one-way trip to and from work is valued at \$1.50. You may either add that amount to the employee's wages or reimburse the employee at that rate. In neither case will the employee be required to maintain or submit mileage records. Even if the employee doesn't use the vehicle for personal purposes, other than for driving to and from work, you can use the commuting rule for tax purposes.

### It can get complicated at times, too

Providing company-owned vehicles for some employees may be an excellent business decision, but you need to understand and comply with the accompanying accounting and tax requirements. That can get complicated, and you may benefit from professional advice before you actually start handing out keys. *T*

## Get smart: Integrate software to streamline jobs

Construction projects are complicated undertakings whether they involve city skyscrapers or country homes. Every job requires project management in the field and financial management in the office.

More and more contractors are finding that integrated computer applications provide the solutions they need to get jobs done on time and on budget.

### Get the picture

Imagine one integrated system that packages project management applications from the field with applications designed for financial managers. These packaged applications provide instant snapshots of every job and facilitate the flow of information from the bid proposal stage through project completion.

If you're like most contractors, you're probably already using a number of software programs to accomplish different tasks within the company. You may have, for example, an estimating program, a payroll application, an accounting system and some sort of procurement software. You use each of these programs for separate tasks, but there is inevitably some overlap among all of them.

That overlap creates inefficiencies, because it requires you to enter duplicate data in multiple programs. An integrated system allows access to data across applications, so data entered once is available in other programs.



If the integrated system is Web-based, the flow of data is even more efficient because it can keep all parties — architects, vendors, subcontractors, governmental regulators, insurance agents, bankers, engineers and owners — apprised of progress, developments and financial status every step of the way.

### Drop the paper

Many contractors still rely heavily on paper documentation for much of their operations. Change orders, for instance, are still faxed around among owners, subcontractors and architects — each of whom must review the order and sign off separately. Legal contracts, requests for proposals, bidding documents, technical drawings, permits and even work schedules all are typically circulated via messenger, fax or mail. And every cumbersome paper process you use contributes to the inefficiencies that can add delays — and thousands of dollars — to any project.

Moreover, your financial managers must have reliable, efficient revenue-recognition processes

to produce accurate financial reports and provide the job-cost-to-date figures you need to stay profitable.

The bottom line, therefore, isn't whether to consider an integrated system but to find the one that is best for your company.

### Consider the options

Because you probably use software from different vendors to perform different tasks, you'll need to find an integrated system that is compatible — or can be synchronized — with your existing applications. You may or may not be able to do that right now, though software developers continue to release more advanced products.

Currently, you'll probably need to decide whether to use a “best of breed” approach or a “suite.” With best of breed, you select the vendor applications that work best for you and integrate them as effectively as possible. A suite of applications comes from a single vendor and you can work your processes as best you can around them. In the end, you may prefer some combination of the two to provide you with the integration you require.

What you want should be driven by what you need. You'll want the best available applications for processes most critical to your company, taking into account how detailed or specialized your requirements are. Then you can find appropriate compatible programs for other procedures and applications.

Software developers are expanding their construction-related offerings to encompass fields such as human resources and imaging in addition to finance and project management, but construction isn't a homogeneous industry. Project management software that's perfect for a highway contractor in Arizona is probably not useful to a residential builder in Maryland.

### Know what you need

The financial, operational and customer relations advantages of an integrated system make it worthwhile for any contractor to investigate the programs that are available. Before you do, however, be sure you know what you want your system to accomplish. **T**

## PLAN TO SUCCEED

Integrated software systems work well only if you plan them as carefully as you plan your building projects. Simply saying you want to integrate project management and financial functions isn't a goal with a measurable benefit. Instead, set goals such as reducing data entry time by 25% or eliminating paper purchase orders.

To make your integrated system perform the way you want it to, also:

- Use a cross-functional team with members from all areas of the business to set system requirements,
- Don't get bogged down in details; pay attention to whether the processes you have will achieve your goals,
- Communicate goals and progress companywide, encouraging acceptance by sharing information,
- Test the software before you buy it, and
- Don't skimp on training — be sure everyone knows how to use the software.

Computers can be programmed to do just about anything, but you have to know what you want first. Take the time to develop a logical system and lead by example to encourage everyone in your company to use it to its best advantage.

# Quality counts when it comes to building your business

Every contractor has had jobs that didn't go well. Perhaps materials weren't delivered on time, your foreman was out sick for several days, the dry, sunny weather forecast wasn't accurate — or all of the above occurred on the same job!

At such trying times, you may be tempted to cut some corners to stay on schedule. But if you're smart, you'll resist the urge. Cutting corners can hurt quality, and that may hurt your bottom line.

Quality construction can build profits, enhance customer satisfaction (and thus limit potentially costly disputes) and even improve employee morale. In fact, quality is so important that you should develop and implement a quality assurance process for yourself, your staff and your subcontractors.

## Do it right the first time

To be effective, a quality assurance program must be consistent, comprehensive and current. You can't build a culture of excellence if you take it for granted that something will have to be redone on every job. The goal is for everyone to take pride in doing things right the first time. That attitude not only leads to better work done more quickly, but also builds your reputation as a top-notch contractor, which may lead to more and better jobs.

The ball is in your court when it comes to setting the tone for excellence. You need to hire skilled workers and subcontractors, and you need to budget time and money to train them as materials, techniques, regulations and accepted practices change.

You also need to specify and enforce your standards, whether you use those established by trade organizations or your own. That means doing your homework. Read manufacturers' instructions, reference standards, building codes and other relevant information for every important component of your jobs. You can focus on one trade at a time,



but you need to understand how things should be done before you can find deviations that may have become embedded in your practices over time.

## Look at materials

Of course, another essential element to quality construction is using reliable materials. Stick to the products you know are good, but don't close the door on new or more evolved products. If you aren't sure about something, find other contractors who have used the product or invite a manufacturer's representative to lunch to discuss it.

If a customer specifies an unfamiliar product, include language in the contract to limit your liability in case it doesn't work out well. Using a phrase such as "installed according to manufacturer's instructions" may help.

## Start spreading the news

Last, communicate your standards. Everyone involved in a job, from the project manager and field crews to the owners and architects, must understand how the work is to be done and the quality standard for the finished product. When everyone shares a common vision, each person is more likely to quickly spot and fix poor quality methods.

You don't want to implement so many inspections that you're slowing the job down, but you need to implement enough to ensure quality standards are being followed. Give your project managers and subcontractors checklists that include job-specific quality guidelines, and require them to check their work, completing and signing the forms at appropriate intervals.

### Take pride in your work

A quality assurance program, when properly developed and implemented, will do more than help you build your profits: It can serve as an objective means of rating your



subcontractors. At its finest, quality assurance can build employee pride to the point that your company assumes the cachet of an exclusive club — one to which only the best workers and most discriminating customers will be admitted. **T**



## Futurescope: Construction Business Trends

### *How to get land acquisition loans in a tough market*

When it comes to building houses in recent years, nothing has changed and much has changed. Location remains the most important commodity in the homebuilding business. What's new is that government land use regulations, land preservation efforts and lengthy approval processes are making prime land increasingly scarce and, thus, increasingly expensive.

Worse, if you do find some attractive land, you may find it even harder to get the loan you need to buy it. Lenders view land acquisition loans as a high risk: speculative propositions that may give them years of headaches, such as carrying fees and taxes, if you default. To protect themselves, they may choose to simply reject your application or to require additional security — perhaps in the form of a partner or a bridge loan with a specialized private lender.

If you're new to the construction business or to a particular area, you're likely to find the approval process more onerous than would an established contractor, but even the most seasoned construction company can improve its chances by gathering information in advance.

Lenders want to know what the property is worth (value, rather than purchase price), how it will be used, whether it's zoned for that use, whether other, similar projects have been successful in the area, and how you plan to repay the loan.

Often, lenders mitigate their risk by maintaining a conservative loan-to-value ratio (possibly 50% or lower) on land acquisition loans. You should know that going in. If you're a smaller contractor, be prepared to personally guarantee the loan. Many contractors form corporations, limited liability companies (LLCs) or limited partnerships specifically to acquire land while reducing their personal liability.

It's hard to find good building sites in hot markets, and it can be even harder to get the financing you need to take advantage of them. Knowing what your lender will be looking for can help.

# The Contractor's Corner

*SSTP could cost you \$\$\$*

**What is this Streamlined Sales Tax Project (SSTP) I've been hearing about? Is it likely to have any effect on me and my business?**

Faced with declining sales tax revenues because of increased Internet purchases, and thwarted by courts in their individual attempts to plug the leaks, many state governments banded together in 2000 to form the SSTP. In addition to allowing states to collect sales taxes on remote sales such as those from catalogs and Internet purchases, the initiative is intended to simplify and standardize the sales tax system.

To fully participate, states must adopt both the Uniform Sales and Use Tax Administration Act, which allows them to enter into an agreement with other states, and the Streamlined Sales and Use Tax Agreement, which amends state laws to conform to SSTP proposals and standardize tax collection across member states. As of Jan. 1, 2006, 19 states were either full or associate SSTP members. Being a full SSTP member means the state is in compliance with the law; associate members include states where final legislation is pending.

## **SSTP could bring costly changes**

Ordinarily, sales tax revisions have little effect on contractors, but the SSTP isn't an ordinary revision. It could represent significant changes in sales and use taxes — and higher project costs, especially if you do business in more than one state.

Under the “all or none” requirements of SSTP, for example, states must either apply sales and use taxes to all freight and delivery charges or exempt them all from taxes. Currently, some states tax only certain delivery charges, but if SSTP is fully implemented they are likely to tax all such charges rather than lose the revenue they now collect.

Another SSTP provision, intended to help states recover lost revenue, allows participating states

to end several current tax exemptions. Again, depending on where you do business, you may be required to pay sales tax on equipment or materials you now get tax-free.

Yet another issue to consider is what will happen to open, but binding, bids if SSTP is fully implemented. In the past, state and local governments have usually protected contractors from tax increases on such bids, but SSTP has no grandfather provision.

## **States not in a rush**

The good news is that states aren't rushing to adopt SSTP, in part because it applies to intrastate, as well as interstate, sales. That may mean cities in the same state will have to use point-of-destination sales-tax-sourcing to determine how to assess and collect sales taxes — a process that may cause one city to gain and another to lose, depending on how state laws are currently written. In Texas, for example, goods shipped from Dallas to a buyer in San Antonio are now taxed in Dallas, or the point of origin. Under SSTP's point-of-destination provision, San Antonio would collect the sales tax.

On the other hand, the slow response means there's no way for you to know when or if the SSTP will become a reality if you aren't in one of the states where it's already fully in effect. Even in states with pending legislation, there's no accurate way to predict when that legislation will be finalized. That means, in turn, that there's little you can do to prepare for it other than to monitor progress.

## **Do your homework to know how to plan**

To check the status of legislation in states in which you do business, visit [www.streamlinedsalestax.org](http://www.streamlinedsalestax.org). If your state has adopted or you believe it will adopt SSTP rules soon, consider including a clause in your upcoming bids and contracts to allow for any adjustments that may be required. **T**

## Greenway Heads Construction Services Group



As the former CFO of a large, closely-held general contractor, Jeff Greenway knows the challenges facing contractors, construction companies, engineering firms and architects. “This is a business like no other,” Jeff notes. “The construction industry has become incredibly specialized, and our team focuses on providing well-rounded advice to clients to assist them in navigating the unsettled waters of an industry undergoing dramatic change.”

Navigating tricky waters is nothing new to Jeff, who likes to relax by fishing in the many lakes of the Carolinas and Georgia where his client base hails from. A 13-year veteran of Elliott Davis, Jeff heads up the firm’s Construction Group — a team of specialists whose practice focuses directly on the needs and challenges of the construction industry.

A graduate of the University of South Carolina, Jeff is a past president of CFMA, active in CAGC and numerous regional accounting organizations, and a CPA in South Carolina. His specialized expertise includes assisting clients with bankers, bonding agents, sureties and other business advisors; insurance analysis and review, succession planning, multi-state taxation and cost segregation studies. Jeff can be reached by email at [jgreenway@elliottdavis.com](mailto:jgreenway@elliottdavis.com).

## Expand Your Profitability With Additional Construction Services

Although many contractors consider themselves specialists, recent economic challenges have driven them to find innovative ways of bolstering their profitability. So, like your colleagues, some contractors now offer additional construction services to not only augment a particular project, but also keep them in touch with owners who could bring them more business.

Joining the ranks of these innovators means, for starters, keeping an eye out for new ways to help customers better accomplish their building construction. For instance, if you know an owner would greatly appreciate an earlier project completion date, suggest a “fast track” construction contract. These agreements synchronize the points at which owners seek financing, design teams expedite drawings and you start work. When all goes well, you can finish half a project before the architect completes the most detailed drawings. Best of all, you can charge a premium for these high-pressure and, admittedly, high-risk jobs.

You might also win additional work from an owner by simply not leaving the job site when the project ends. We’re not suggesting you stage a sit-in; rather, propose skilled labor or consulting toward the facility’s ongoing management. For example, offer to perform environmental compliance duties, such as regular grounds assessment and reporting to governing agencies. Or schedule regular maintenance visits to handle more advanced upkeep tasks for which a typical janitorial staff may be unequipped.

### Network to a Higher Net Profit

Other potentially lucrative additional services involve networking among various current and prospective customers. For instance, arrange for two companies in need of limited warehouse space to share a single larger facility (which you, of course, will build). Or introduce several owners seeking similar retail space to the idea of sharing services and customers in a new shopping mall. Again, just make sure your name will be on the sign outside the job site.

In fact, site selection is becoming a particularly profitable niche for many construction companies. You’re likely already an expert on your municipality’s various zoning restrictions, and perhaps you know of several available properties right now. Through regular follow-ups (be they phone calls or site visits) with owners, you may learn of their ongoing construction needs. And by keeping tabs on your local economy, you can stay cognizant of quickly growing businesses that could use your site selection as well as building services.

### The Sky’s the Limit

Which additional services your construction company can offer depends on your interests and areas of expertise. But, ultimately, the sky’s the limit — don’t be afraid to stretch the traditional boundaries of construction to better serve your customers, community and bottom line. If you’re interested in expanding your services, please call us. We can offer you personalized advice on how to safely and profitably pursue these opportunities.

## Office Contacts

GREENVILLE	(864) 242-3370	Jeff Greenway
AIKEN	(803) 649-1500	Bob Wade
ANDERSON	(864) 226-9514	Charlie Thornton
AUGUSTA, GA	(706) 722-9090	Bill Woodward
COLUMBIA	(803) 256-0002	Jim Hazel or Todd Soderlund
GREENWOOD	(864) 229-4951	Mickey Young

## Get To Know Elliott Davis

Since 1925, Elliott Davis has been the accounting and business advisory firm that improves the financial management of emerging and middle market clients by personally applying national-caliber resources to a broad range of business services. Our mission is simple — help every client achieve the highest level of success and peace of mind possible. That philosophy has helped make us one of the largest CPA firms in the Southeast and among the Top 60 in the nation.

To learn more about Elliott Davis and how we can help you position your company for sustained profitable growth and continuing success, call us at 800-503-4721 or visit our web site at [www.elliottdavis.com](http://www.elliottdavis.com).

## Firm Services

In addition to offering personal and varied services to clients in a number of specialized industries, such as construction, Elliott Davis also provides deep collective experience in accounting and advisory functions:

- ☐ Tax Planning
- ☐ Tax Preparation
- ☐ Auditing
- ☐ Business Strategy
- ☐ Bookkeeping
- ☐ Business Valuation
- ☐ Litigation Support
- ☐ Cost Segregation Studies
- ☐ Retirement Plan Administration
- ☐ Wealth Management Services
- ☐ Technology Solutions