



CONSTRUCTION BLOG

A Good Foundation

AUTHOR: SANDBERG PHOENIX, CARL LOTHMAN

Every contractor knows that a good foundation and building structure is essential to having a quality building. A poor beginning or lack of maintenance often spells trouble down the road. Among the basics when starting a construction business, an owner should determine what type of entity is best for liability protection purposes and for tax purposes.

Basic considerations for liability protection include: both a corporation or a limited liability company (LLC) formed under state law generally limit liability to the value of assets owned by the corporation and avoid personal liability of the owner(s); a sole proprietorship or a general partnership expose the owner(s) to liability. As a result, most construction related businesses are either a corporation or an LLC, with many preferring to operate as an LLC due to the simpler operational and management aspects.

Basic considerations for tax effects are that an entity can either be taxable as an entity itself (C corporation) or as a passthrough entity with taxable income "passing through" and being recognized directly by the owner(s) (sole proprietorship, general partnership, "S" corporation). A new factor arose January 1, 2018, when, under tax reform, Section 199A became effective; this part of the tax code provides a 20% deduction of the pass through "qualified business income", reduces the effective tax rate for those owner(s) and makes the pass through entity an even more appealing approach for construction firms (including architecture and engineering firms specifically whereas some other professional firms are not eligible.) Conversions between types of taxable entities sometimes occurs (e.g., in order to attract outside investors or facilitate a sale of the business, or seek a lower effective tax rate) but can involve sophisticated issues that should be reviewed with advisors.

Our firm has the expertise to help you properly form your business, update your business foundations and structures, and even to perform a comprehensive business audit. Call us so that we can help you efficiently maintain your business "building".