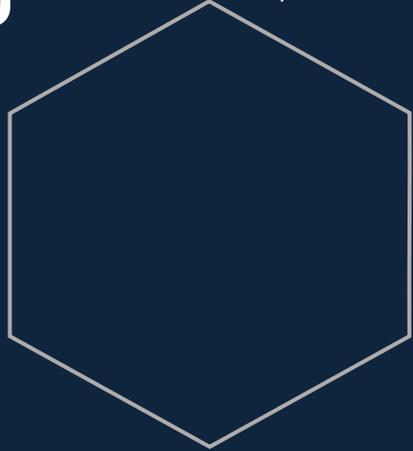


2025 Economic & Tax Update

Christopher J. Previte, CPA, MBA, MST

Jeffrey T. Rogers, CPA, MST





Agenda



Introduction

Objectives for today:

- Understand how, if at all, economic indicators will impact your business in the next 12 months.
- What can we do to stay ahead of what's to come?
 - Financial indicators/ metrics to be on the lookout for
- Can Technological Advances help your business?
 - What's new in the technology space
 - AI
 - Breakout session
- Many tax policy changes to consider. What will stick and what won't with new administration?





**ECONOMIC
UPDATE**

**Key Indicators
Future Impact**

Indicators

Metric	01/01/90	12/31/02	03/01/09	12/31/22	12/31/24
Rate of Inflation	5.4%	1.2%	3.0%	7.1%	4.2%
Prime Interest Rate	10.11%	4.75%	3.25%	7.5%	7.5%
Stock Market					
DIJA	2,634	10,454	6,291	33,551	42,706
S&P 500	367	856	720	3,902	5,975
NASDAQ	374	1,336	1,368	10,670	19,551
Office Vacancy Rate – Boston	17%	16%	11.4%	12.7%	17%
Unemployment Rate - MA	9.5%	6.1%	7.4%	3.4%	4.0% 4.2% National
Bust Event 3 Years Prior/ Bubble Burst	Tax Reform Act of 1986/ Elimination of Tax Shelter	April 2000 Technology Crash	Sub Prime Crisis	Pandemic	N/A
Financial Crisis	S&L	Dot-Com	AIG, Bear Sterns, Lehmann, etc	Interest Rates (Start of bank run?)	N/A

Indicators

Inflation

- Hit a rate of 8.5% in 2022 (highest since 1982)
- Has been leveling off (creating optimism on interest rates)
- The Federal Reserve target rate of inflation is 2%
- Current Inflation been climbing since January. Now 4.2%

Interest Rates

- Fed Fund Rate vs. Prime Rate history (graph)
- What's happened with the rate cut expectation for 2024? 2025?
- December Fed Reserve meeting results
- Key driver in construction spending
- Sofr Rate (4.31%)

Stock Market

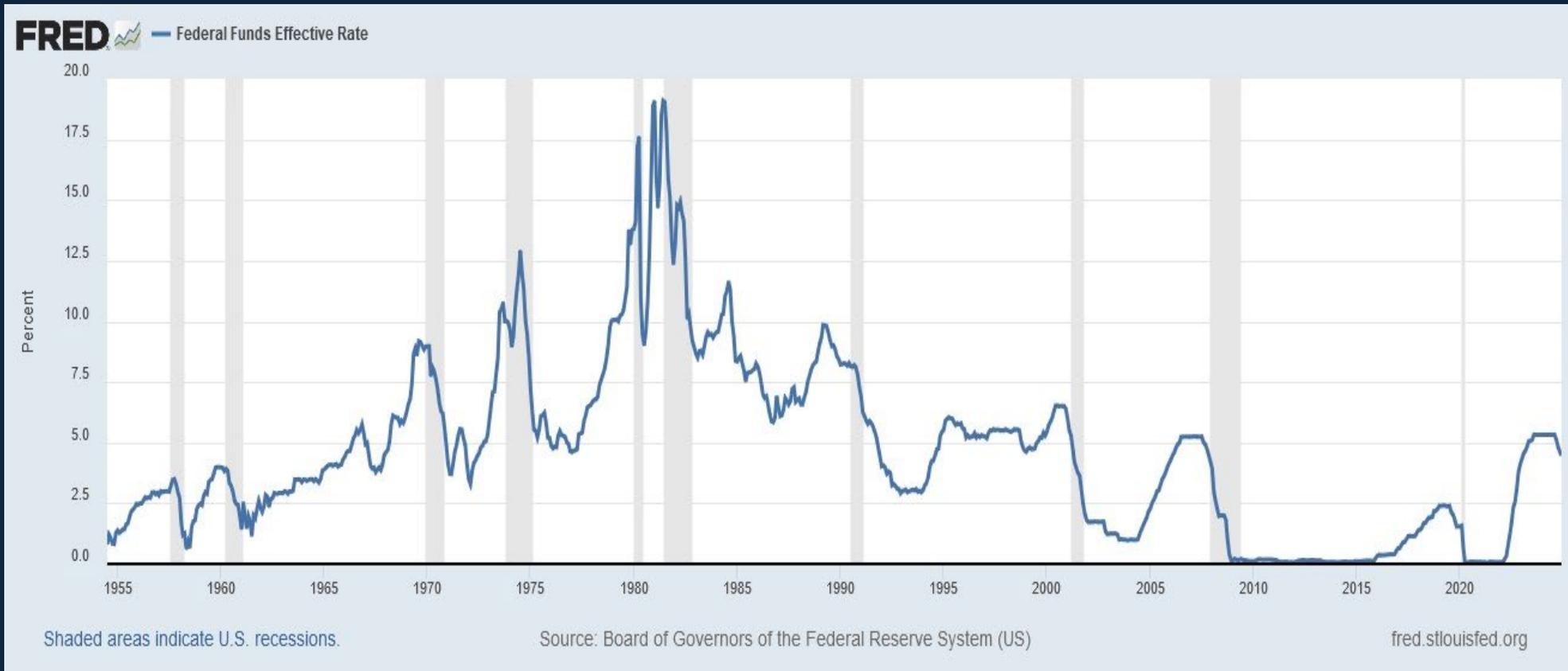
- Wall Street's worst month in 2024 (since April) was December
- Two losing months in 2024
- Stock market bottom vs recession ends (3-6 months)

Unemployment

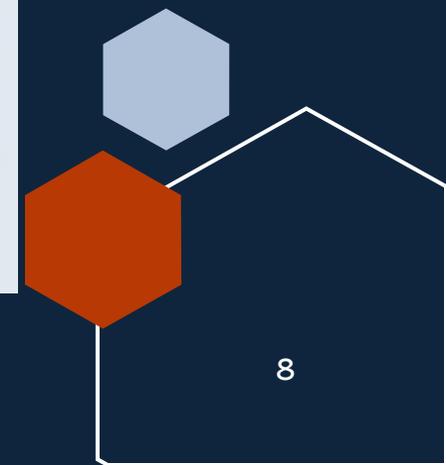
- Was under 4% (25 straight months) – 4.2% a slight uptick since January 3.7%
- Expectation not much increase in 2025
- Labor force participation rate 62.5% (lowest in 20 years – except pandemic)



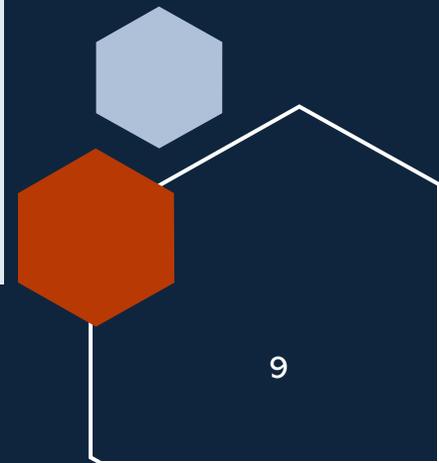
Fed Funds Rate



Consumer Price Index

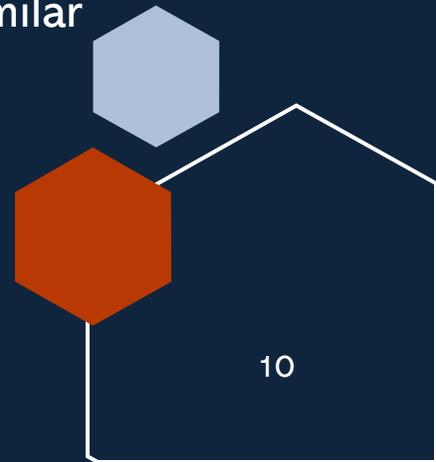


Unemployment



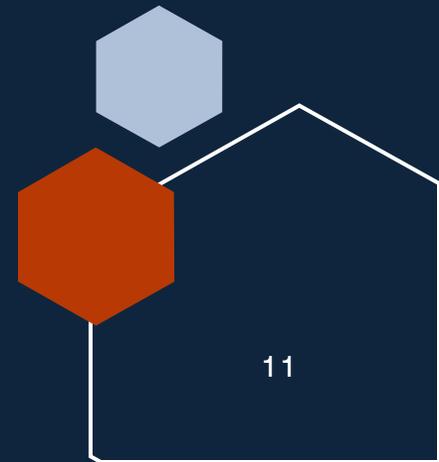
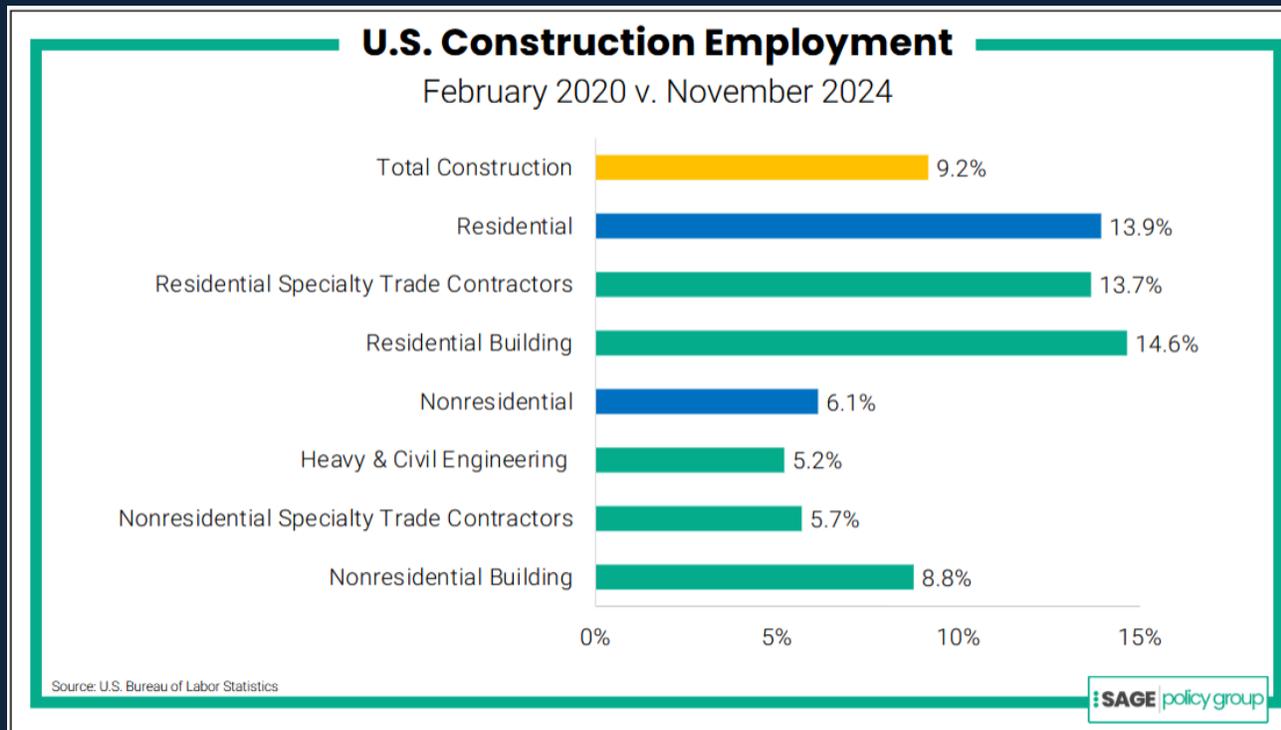
Compensation Challenges

- “Even the smallest percent changes in the construction world is a big deal” – CFMA
- Staff Turnover – Decreasing over the past 4 years (14.8% in 2023 vs 17.9% in 2021)
 - Larger contractors are seeing a higher percentage turnover
 - \$500M – 17.5%
 - \$250M – 16.7%
 - \$100M – 15.2%
 - \$25M – 14.1%
 - \$5M – 4.5%
 - Highest level of turnover at the Superintendent & PM Levels
- Pay Increases – on average were 5.1% in 2022 and 2023, 4.4% in 2024, and expectation similar for 2025 (Unemployment goes down pay increases go up).
- Assessing exactly what employee’s value



Compensation Challenges | Labor Issues

- 2023 construction job openings remained 156,000 (68%) higher nationally than pre-pandemic times. This decreased to roughly only 22,000 more openings (250,000 vs 228,000) in 2024 - 10%.
- US continues to add jobs – 277,000 in November 2024. 698,000 Construction jobs since covid – 10% of total new jobs added since 2020. Health & Education (30%) lead the way.



Construction Outlook (Source: AIA/Deltek Architecture Billings Index (ABI))

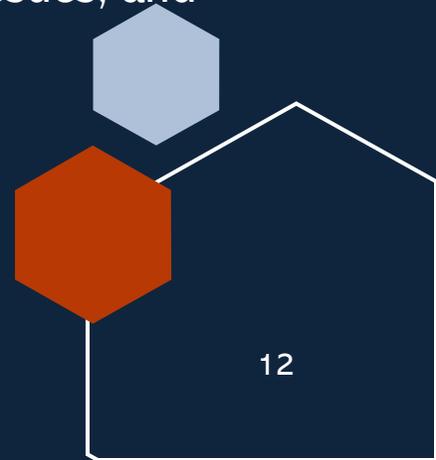
The AIA/Deltek Architecture Billings Index (ABI) is a leading economic indicator of construction activity. Provides approximately a 9-to-12-month view into the future of nonresidential construction spending activity.

The score is derived from a monthly survey of architecture firms that measures the change in the number of services provided to clients. A score above 50 indicates expansionary business conditions.

Business conditions at architecture firms softened in May, as the AIA/Deltek Architecture Billings Index (ABI) score declined to a low of 42.4 in May 2024.

That marked the **20 consecutive months** of declining billings at firms as inflation, supply chain issues, and other economic challenges continued to affect business. Saw its first increase in October 2024

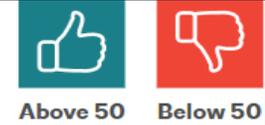
*Optimism in October showed the first increase.
And remained relatively flat in November 2024.*



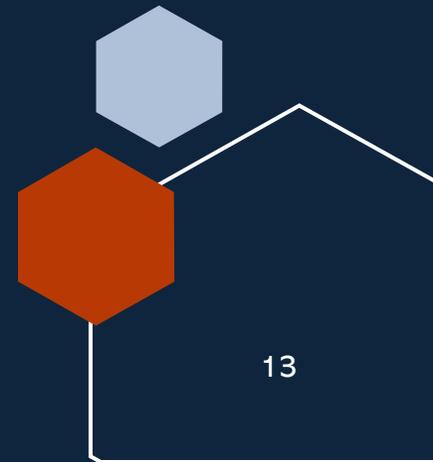
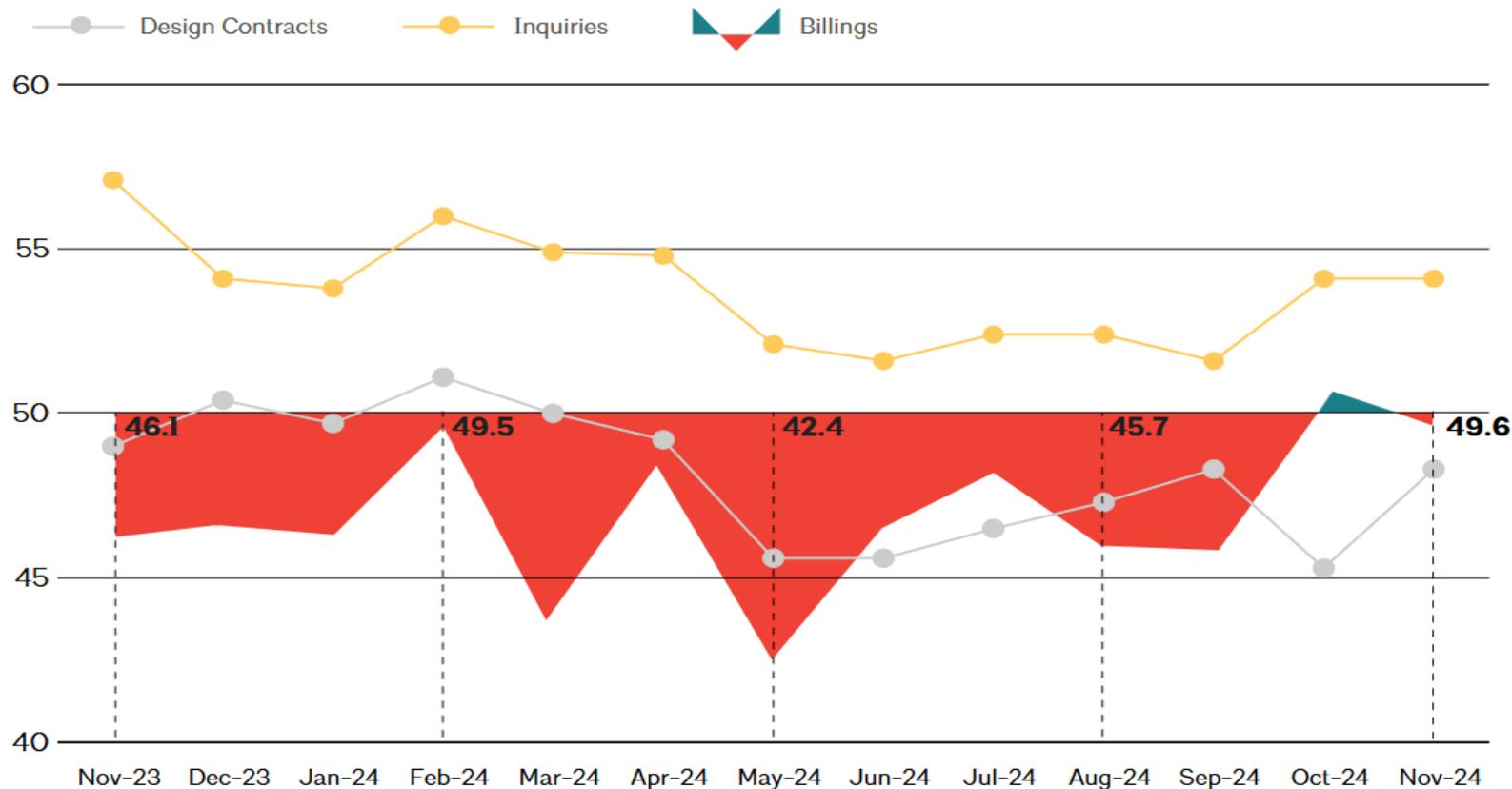
Construction Outlook (Source: AIA/Deltek Architecture Billings Index (ABI))

National

Billings remained flat at architecture firms in November



Graphs represent data from November 2023–November 2024.

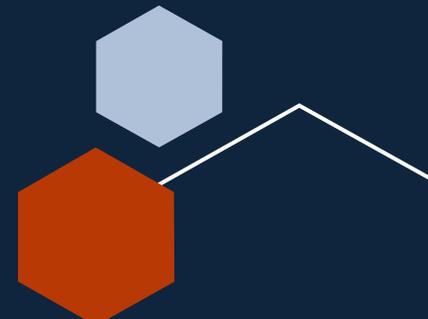
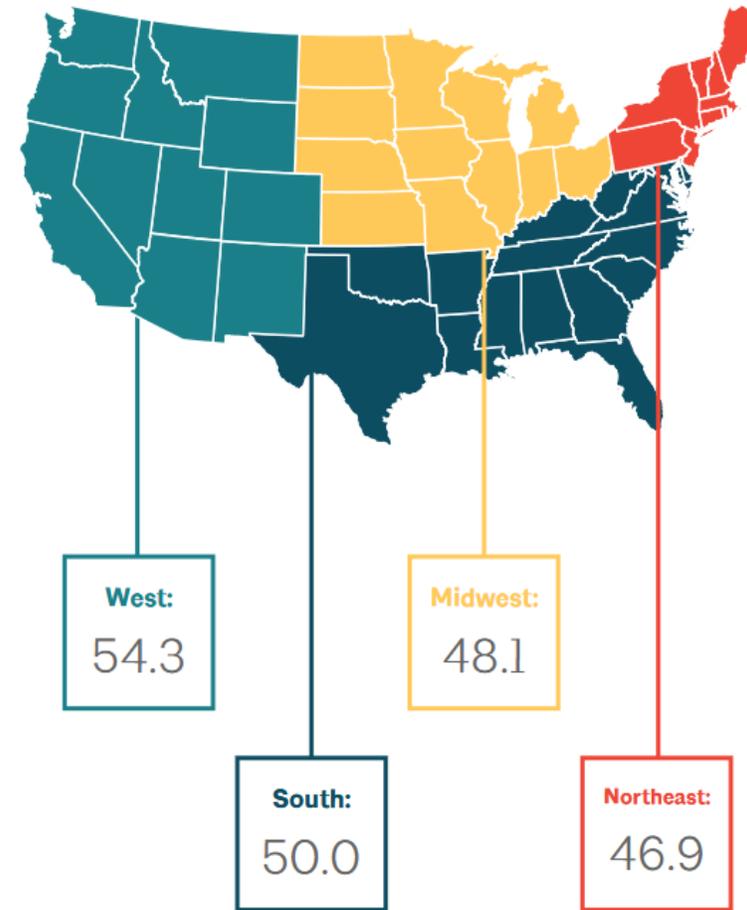
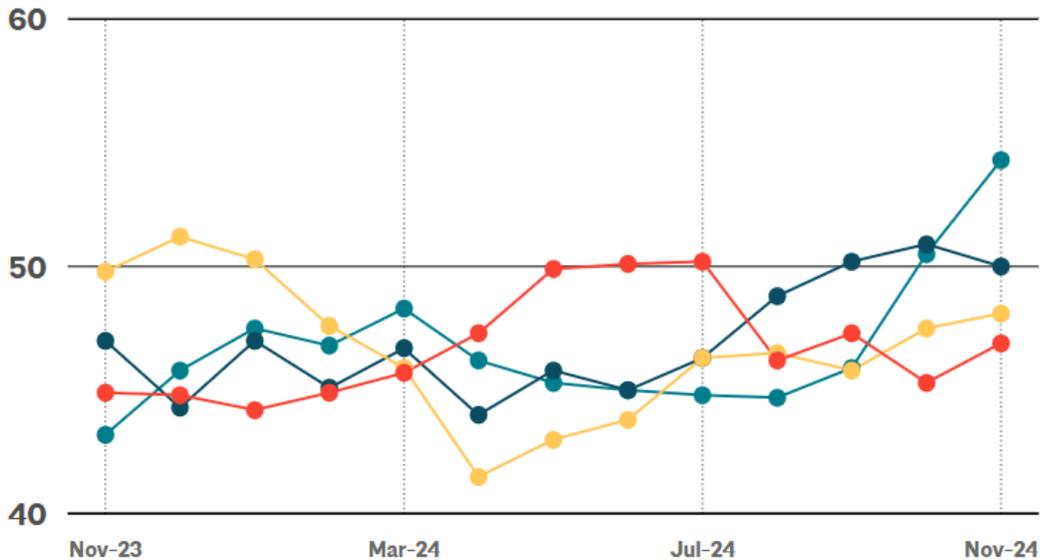


Construction Outlook (Source: AIA/Deltek Architecture Billings Index (ABI))

Regional

Business conditions improve at firms located in the West and South

Graphs represent data from November 2023–November 2024 across the four regions. 50 represents the diffusion center. A score of 50 equals no change from the previous month. Above 50 shows increase; Below 50 shows decrease. 3-month moving average.

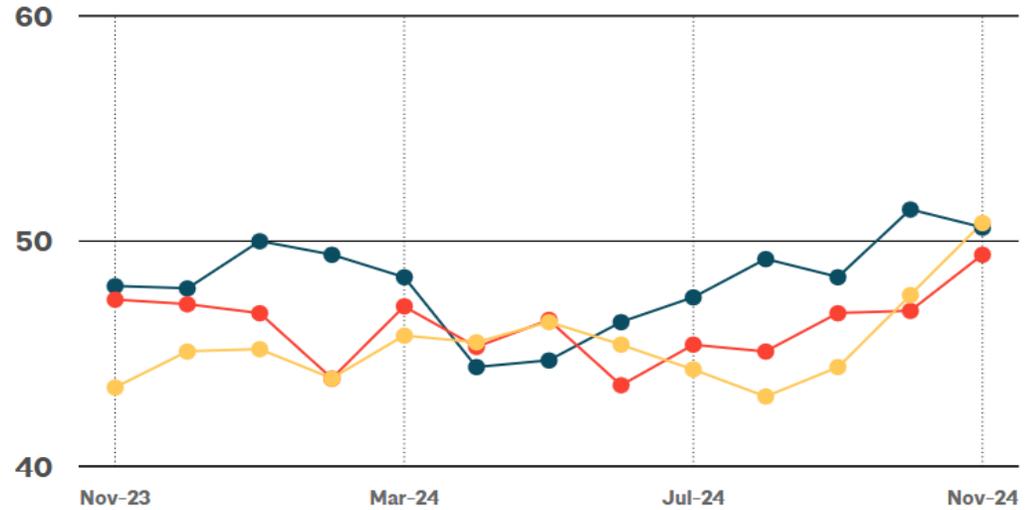


Construction Outlook (Source: AIA/Deltek Architecture Billings Index (ABI))

Sector

Firms with a multifamily residential specialization see billings growth for the first time since 2022

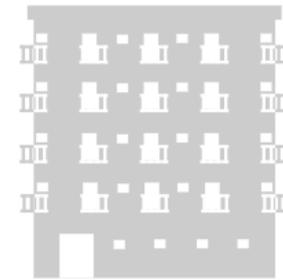
Graphs represent data from November 2023–November 2024 across the three sectors. 50 represents the diffusion center. A score of 50 equals no change from the previous month. Above 50 shows increase; Below 50 shows decrease. 3-month moving average.



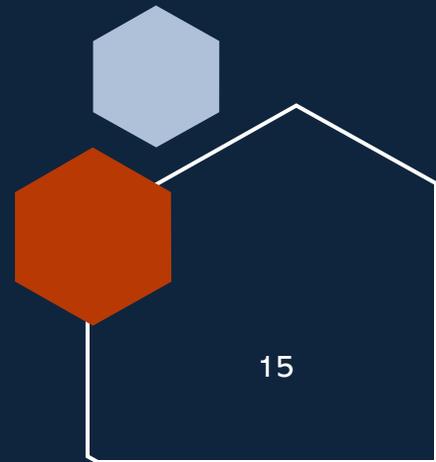
Commercial/Industrial: 49.4



Institutional: 50.6



Residential: 50.8



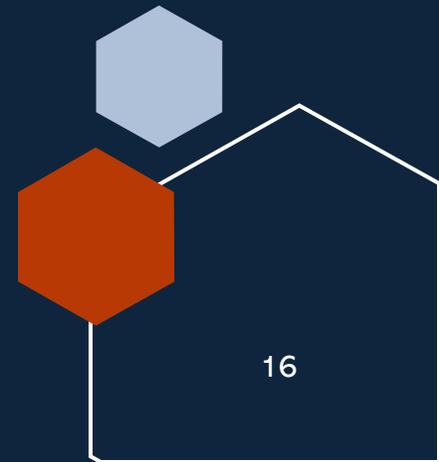
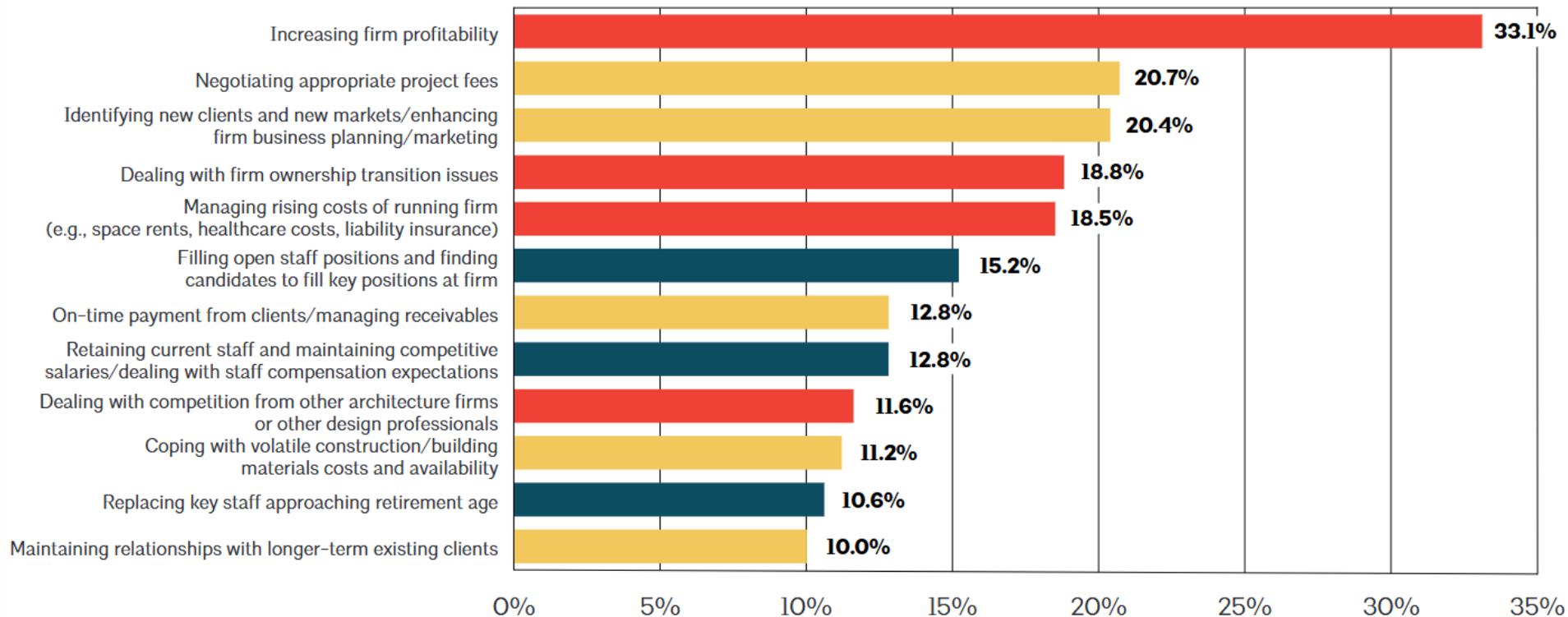
Construction Outlook (Source: AIA/Deltek Architecture Billings Index (ABI))

Practice

Firm and project management issues remain top business-related concerns for firms in 2025

units: % of firms selecting issue as one of their top three business-related concerns for 2025, of firms that rated issue as a major concern for the coming year

- Firm management and strategy concerns
- Project management, marketing, development concerns
- Staffing and professional development concerns



Leading Challenges for Construction Companies Today

November 2023 to November 2024



Supply Chain

Down from 14% to 6%



Worker/Skill Labor Shortage

Down from 66% to 59%



Demand for Construction Services*

Up from 6% to 15%



Financing

Up from 10% to 14%



No issues

Up from 3% to 5%

Backlog (Source: Associated Builders and Contractors)

How has backlog changed over last 6 months?



Backlog Considerations

Planning for 2025 & Beyond

Good vs Bad Backlog

- Jobs that are in our wheelhouse
- Estimation sign offs
- Profit margin focus
- Subcontractor schedule and reliability / material availability
- Take on what we can handle
- Beware of jobs with higher owner risk
- Schedule & key employee status
- Market condition volatility

What Can Go Wrong?

- Are we looking to expand geographic locations or work in a new sector
- Do we carefully consider contract size – its ok to say no
- Risk of subcontractors
- Financing considerations
- What is the right amount of backlog



Planning Items

- Succession Planning
- Developing the Next Generation
- Compensation of Key Personnel
- Financial Metrics | Ratios | Warning Signs
- Sales Goals
- Anchor Projects | Knowing When to Say No
- Technology



When should we be concerned?

- AR Days Growing >90Days
- UnderBillings > OverBillings
- Extended use of the LOC
- Gross Profit Fade – recurring
- Revenue to Working Capital (WC Turnover)



TECHNOLOGY



Technology in Construction

- Project Management
- General Ledger | Financial Reporting
- Payroll
- Communication | Email | Notes
- Estimations and Bidding
- Job Site Review & Safety (Risk Mitigation)
- Design and Planning
- Robotics
- Integration

Are you ready? Is it for YOUR business

Understanding the impacts of AI And Digital Transformation on your business.

Assess whether it would provide your business with a competitive advantage.

- Automation
- Efficiency
- Safety

Develop a plan to understand your technology adoption readiness.

Technology Products (What are you using?)

Accounting

- Sage (50, 100, 300, Intacct)
- Vista (Peachtree, Spectrum, Viewpoint)
- QuickBooks (Desktop, Online)
- Foundation
- CMiC
- Jonas

Project Management

- ProCore
- Buildertrend
- Autodesk
- Sage
- ClickUp
- Fieldwire
- Primavera
- Corecon

Job Site

- OpenSpace
- Foresight
- ALICE Technologies
- Doxel
- Buildots

Other

Microsoft Co-Pilot

- Marketing | Logo Generation
- Note taking
- Data Analysis
- Email management

Other

- Contract review
- Regulatory Compliance
- Material Selection & Procurement
- Safety | Risk Management





Why Adopt?

- Over 300 new technology application entered the market in 2024
- 65% of the industry will implement digital asset lifecycle strategies over the next 3 years
- 96% of construction data goes unused
- 90% of employees feel more satisfied with their jobs when using technology
- Opportunity Costs – 54% believe they could save 5+ hours a week from automation

Source: Forvis Mazars, LLP



Breakout Session

- What, if any, tech products are you using in your business?
- Has your business achieved its digital transformation goals? (some, not at all, don't feel the need to, understand we should and need to develop a plan)
- What areas could you use the most help from technology?



TAX UPDATE

Trump Tax Policy – Steps to Get a Bill Passed



House of Representatives: Republicans hold a 5-seat majority

- Majority will temporarily reduce as 3 members leave to join the Trump administration



The Senate: Republicans hold 53 of the 100 seats

- Typically, 60 votes needed to pass bill
- Alternative: pass bill through reconciliation process, which only requires a majority



The President: President-elect Trump must sign the bill.

Trump Tax Policy – Competing Priorities

- **Confirmation Hearings:** The Senate must confirm President-elect Trump's new administration picks.
- **Federal Budget:** Congress must pass a budget for the fiscal year which started on October 1, 2024.
- **Debt Ceiling:** Lawmakers must address the debt ceiling by March 2025 to avoid a government shutdown or default.
- **Changes to Immigration & Energy Policies** – bill expected to pass within first 100 days

Trump Tax Policy – New Ideas Proposed along the Campaign Trail

- Exempting Overtime Pay from Income Tax
- Exempting Social Security Benefits from Income Tax
- Exempting Tip Income from Income Tax
- Creating an itemized deduction for auto loan interest
- Creating a tax credit for family caregivers



Trump Tax Policy – Major Focal Point: Extend Expiring Tax Cuts

- The following favorable individual and estate tax provisions introduced by the 2017 Tax Cuts and Jobs Act are set to expire at the end of 2025:
 - Reduced tax rates and expanded brackets
 - Section 199A Qualified pass-through income deduction
 - Doubled Estate Tax Exclusion
 - Enhanced Child Tax Credit
 - Increased standard deduction
 - Larger AMT Exclusions
- Increase or eliminate the SALT cap from its current \$10,000 level



Trump Tax Policy – 2026 Tax Rates & Bracket Comparison

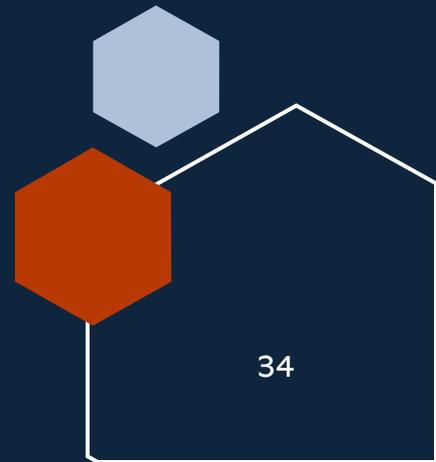
Bracket	Rates Under TCJA	Rates if TCJA Expires
1	10.0%	10.0%
2	12.0%	15.0%
3	22.0%	25.0%
4	24.0%	28.0%
5	32.0%	33.0%
6	35.0%	35.0%
7	37.0%	39.6%

	Joint Filers Thresholds if TCJA Continues	Joint Filer Thresholds if TCJA Expires
First rate begins at	\$0	\$0
Second rate begins at	\$24,500	\$24,400
Third rate begins at	\$99,550	\$99,200
Fourth rate begins at	\$212,200	\$200,100
Fifth rate begins at	\$405,050	\$304,950
Sixth rate begins at	\$514,400	\$544,550
Seventh rate begins at	\$771,550	\$615,100

If your joint income is \$150,000, your taxes will increase by \$3,800 or 17%
 If your joint income is \$250,000, your taxes will increase by \$7,500 or 17%
 If your joint income is \$400,000, your taxes will increase by \$18,300 or 22.5%
 If your joint income is \$1,000,000, your taxes will increase by \$32,400 or 11%

Trump Tax Policy – Major Focal Point: Extend Expiring Tax Cuts

- **Section 199A Qualified pass-through income deduction**
 - Deduction up to 20% of Qualified Business Income (QBI)
 - Available to Owners of S-Corporations or Partnerships
 - Most service income is not considered QBI, though deduction may be available at lower income levels
- **Current Estate, Gift, & GST Lifetime exclusion = \$13.61 million**
 - Without TCJA extension, it will revert to \$ 7 million in 2026
 - 40% estate tax rate is permanent and will likely stay that way



Trump Tax Policy – Major Focal Point: Extend Expiring Tax Cuts

Enhanced Child Tax Credit

- Currently \$2,000 per qualified child; will reduce to \$1,000 if not extended
- VP-Elect Vance suggested increasing to \$5,000 per child

Increased Standard Deduction

- Standard deduction for MFJ is near \$30k; will cut in half if not extended

Increase or eliminate the SALT cap from its current \$10,000 level

- Trump is believed to be in favor of bumping to \$20,000
- A full elimination of the cap could spell the end of the state PTE programs



Trump Tax Policy – Other Tax Objectives

The following are tax policy objectives that Trump has mentioned:

- Reduce Corporate Tax Rate from 21% to 20%
- Reduce effective rate to 15% for Domestic Manufacturers
- Restore 100% Bonus Depreciation and make permanent
- Restore full expensing of Section 174 R&D costs
- Return to pre-2022 Section 163(j) interest limitation calc
- Repeal the noncorporate excess loss limitation
- Repeal energy credits and other IRA incentives
- Increase university endowment tax
- Introduce/increase tariffs on foreign imports

Trump Tax Policy – Other Tax Objectives

- **Reduce Corporate Tax Rate from 21% to 20%**
 - C-Corporation tax rate
- **Reduce effective rate to 15% for Domestic Manufacturers**
 - Return of Section 199 Domestic Production Activity Deduction (?)
- **Restore 100% Bonus Depreciation and make permanent**
 - TCJA originally provided 100% first year write off but, beginning in 2023, each year saw incremental 20% reductions
 - 2025 scheduled bonus depreciation rate = 40%
 - Section 179 would still exist



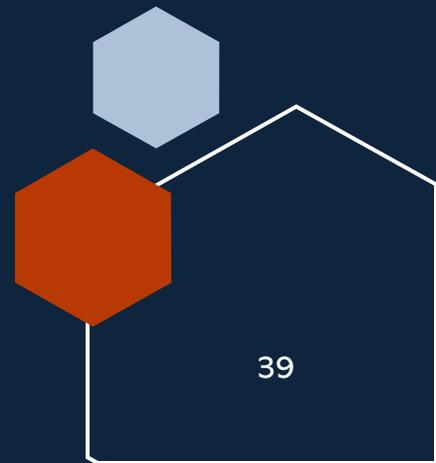
Trump Tax Policy – Other Tax Objectives

- **Restore full expensing of Section 174 R&E costs**
 - Prior to 2022, research & experimentation costs could be deducted when incurred
 - Since 2022, R&E expenses must be amortized over 5 years/15 years
- **Return to pre-2022 Section 163(j) interest limitation calc**
 - Prior to 2022, a company's interest deduction was limited to 30% of taxable income after adding back interest, depreciation, & amortization
 - Since 2022, depreciation & amortization have not been allowed as an addback subjecting much more interest expense to suspension
- **Repeal non-corporate excess loss limitation**
 - 2025 losses in excess of \$313k/\$626k get suspended & converted to NOL



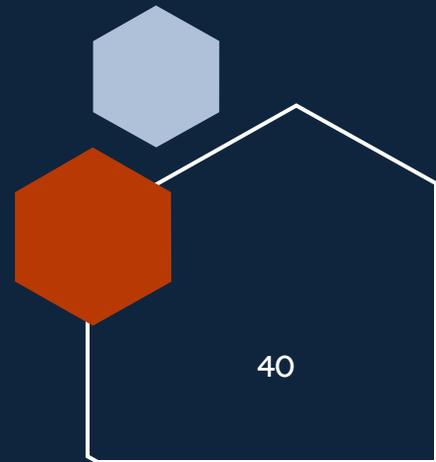
Trump Tax Policy – Paying for the Tax Changes

- **Repeal energy credits and other Inflation Reduction Act incentives**
 - Credit for purchasing electric vehicles
 - Investment tax credit for renewable energy production (solar)
- **Increase university endowment tax**
 - Currently 1.4% excise tax on net investment income of certain private colleges and universities with substantial endowments
- **Introduce tariffs on US imports**
 - Trump has proposed a universal baseline tariff on global imports (10%-20%)
 - Has Proposed a 25% levy on shipments from Canada & Mexico
 - Also proposed increasing the existing tariff on Chinese imports to 60%
 - Some economists believe costs will rise and countries will retaliate
- **Reduce Inefficient Government Spending**
 - Department of Government Efficiency task force



Corporate Transparency Act – Status of Beneficial Ownership Reporting

- **Filing requirement administered by Financial Crimes Enforcement Network (FinCEN)**
 - Original requirement to file at www.fincen.gov/boi by December 31, 2024
 - On December 3, 2024, the US District Court for Eastern District of Texas issued order granting a nationwide preliminary injunction
 - Shortly thereafter, the Department of Justice filed an appeal and sought a “stay” of the injunction
 - On December 23, 2024, the US Court of Appeals granted a stay of the injunction which reinstated the filing requirement but with an extension of time until January 13, 2025.
 - 3 days later, the original injunction was put back into effect and the requirement became voluntary
 - Oral argument in the case scheduled for March 25, 2025
 - On NYE, FinCEN filed another application to stay the injunction with the Supreme Court with a request for response to the application by 4pm on January 10, 2025
- **Recommendation:**
 - Begin pulling together copies of driver’s licenses to be prepared to submit on short notice



Q&A



Presenter

Christopher J. Previte, CPA, MBA, MST

Co-Managing Partner | E.J. Callahan & Associates

Chris has 25 years of experience in public accounting, specializing in accounting, tax and business advisory services as they apply to contractors, suppliers, professional service organizations and non-profit organizations. Over the course of his career, Chris has helped clients conduct strategic tax planning and analysis engagements, operational reviews, financial forecasting and budgeting, and benchmarking analysis. He has presented for multiple trade associations and business events on topics ranging from economic updates to best construction accounting practices. Chris is an active member of the AICPA, MSCPA and CFMA. He holds a Bachelor of Science degree in Accounting, a Master of Science degree in Business Administration and a Master of Science degree in Taxation all from Bentley University. Chris is actively involved in supporting area non-profit organizations, including serving as the Treasurer and board member of ACE Mentor Program of Massachusetts.



Presenter

Jeffrey T. Rogers, CPA, MST

Partner | E.J. Callahan & Associates

Jeff has over 18 years of experience specializing in tax planning, tax research & compliance, IRS & State Exam Representation, Mergers & Acquisitions, and Business succession & ownership transitions with a focus in the construction, real estate, non-profit, restaurant, manufacturing & distribution industries. He helps businesses adopt the most tax efficient accounting methods available to them and identifies all tax credit and incentives to which they may be entitled. Jeff has presented for multiple trade associations, Chambers of Commerce, and at other business events, and is published in the Boston Business Journal and the Cape and Plymouth Times. He holds a Bachelor of Science Degree in Accounting from Merrimack College and a Master of Science degree in Taxation from Bentley University. Jeff is an active member of the AICPA, MSCPA, CFMA and ASM. Jeff is also Treasurer for the Danvers American Little League and a volunteer coach in several youth sports programs.



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