



SURVIVE TO THRIVE IN BETTER TIMES: A Primer for Homebuilders and Construction Contractors

By Michael E. Breier, CPA, CITP

This is not your father's economic downturn. This downturn is extraordinary and therefore calls for extraordinary measures in dealing with it. We do not know exactly when this will end but we can say with great deal of certainty that it will end. When better times come, you want to be in business and that means you need to be in full survival mode now. Here are a few suggestions that should help your homebuilding or construction contracting business survive this economy.

Exploit Government Stimulus Programs to fullest extent possible. Do some research on Government Stimulus funded shovel-ready projects in your area and bid these projects. There are many resources for construction contract leads. If you have never used a subscription service or an industry consultant to obtain leads in the past, you may want to consider doing so now. If your business is one that has not typically worked on infrastructure projects in the past, consider adapting your business to enter this market; it may be too long a wait for the residential construction market to recover.

As part of the Government Stimulus Program, there are several new tax breaks that should be taken full advantage of if appropriate. To name a few:

- **Federal Housing Tax Credit for First-Time Home Buyers.** The tax credit is equal to 10% of the purchase price up to \$8,000. The credit is refundable. This means a first-time buyer can get a refund from the IRS, even if little or no taxes are owed and the credit does not have to be repaid. Advertise the credit and consider innovative ways to get these dollars to the closing table for your buyers.
- **Energy Efficiency Tax Credit.** There is an increased tax credit for certain energy saving home improvements installed in 2009 and 2010. If you provide residential home improvements, your marketing materials should be informing potential customers that the improvements may qualify for a tax credit equal to 30% of the energy saving improvement up to a maximum of \$1,500. Make sure you have a thorough understanding of this law and the benefits afforded, before you market it.
- **Section 179 Expenses.** In 2009, you can expense up to \$250,000 of qualifying purchases of new or used business property (Section 179). The Section 179 expense is limited to



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taxable income and phases out if you purchase more than \$800,000 of business property during the year.

- **Bonus Depreciation on Purchases.** You can take first year bonus depreciation in 2009 on qualifying new business purchases equal to 50% of the purchase price. This rapid depreciation write-off coupled with Section 179 expensing is a great way to increase cash flow through reduced income tax liabilities. Also, especially for contractors, investments in new equipment that will reduce costs and improve efficiencies will allow you to bid more competitively in a tough market.
- **Net Operating Loss Carryback Extension.** If you are experiencing net operating losses, the 2008 Economic Stimulus Act extended the carryback period from 2 years to 5 years for certain eligible small businesses. Carryback claims for refunds of income taxes you have paid over the past 5 years could give you some much needed survival capital.

Cash (flow) is King. Concentrate on activities and policies that will improve cash flow. While in survival mode, contracts should allow for as much collection up front as possible to reduce reliance on your own capital and bank lines of credit. In keeping with this, speed up billings if at all possible. For contractors, even sending bills three days earlier on the average is not insignificant when it comes to cash flow. When you bill, invoices should be inspected for correctness. Nothing is surer to delay payment than an incorrect bill. For homebuilders, this means demanding meaningful up-front deposits on home contracts that cannot be walked away from easily.

Communicate often and work closely with your bank to establish a sufficient line of credit or make sure that present lines of credit are suitable to your survival needs. Be open and honest with your lender regardless of your financial situation. Be prepared to provide your bank with realistic financial projections and your detailed survival plan. Give them a reason to want to continue their business relationship with you.

Examine your overhead costs closely. Even costs like office supplies, which you did not consider important enough to look at in the past, should be monitored closely. Often, managers and owners allow these less important costs to become higher than necessary. Leave no stones unturned here.

Make the really tough decisions if you want to survive. Idle or semi-idle workers cannot stay on the payroll for long. Having to lay-off or reduce the work schedule of loyal, long time valued employees is the toughest thing an employer will ever have to do. Remember, you want the



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company around long enough to hire them back when the market rebounds. Some companies make the grave mistake of low bidding and accepting jobs or sales contracts that they know they will lose money on in order to keep idle employees busy. This strategy almost always results in no one having a job at the company in the near future.

Knowledge is power. Survivors arm themselves with the information they need in order to make sound, timely business decisions. Make a concerted effort to generate accurate, timely financial reports. Good financial reporting is the backbone of management's decision making process. Also, lenders are more likely to want to work with businesses that demonstrate that they have good financial reporting systems and practices. A lender does not want to hear that you laid-off your controller before other idle workers.

Assuming you have accurate financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP), you should compare your company's key financial ratios to industry averages. You should know where you stand in comparison to your competitors in terms of profitability, liquidity, borrowing and asset utilization. There are several data bases available that can be used to compile this type of analysis. You should ask your CPA for assistance in putting the analysis together and interpreting the results.

Lastly, learn from these difficult times. Use the knowledge that you have gained in this severe economic downturn to your advantage. If you are successful at survival in this economy, you will thrive over your competition (which there will be less of) when the markets return to normalcy. Then, ask yourself, what was most problematic in surviving the economic downturn? Then, make plans to avoid those problems when the next one comes. And, there will be a next one.



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