CONSTRUCTION OUTLOOK 2013
CONSTRUCTION OUTLOOK 2013

OPENING REMARKS
KURT SIEBENALLER
TODAY’S AGENDA

7:00 to 7:30AM  Breakfast and Networking
7:30 to 7:40AM  Opening Remarks – Kurt Siebenaller
7:40 to 8:10AM  Legislative Construction Update – Lance Binoniemi, MITA
8:10 to 8:25AM  Michigan Update – Christopher Meso, AGC

Joint Ventures – The Way Business Gets Done

8:25 to 8:40AM  Accounting Issues - Rob Scope, UHY
8:40 to 8:55AM  Legal Issues – Edward Boucher & Barry Jensen, Kotz Sangster Wysocki P.C.
8:55 to 9:15AM  Bonding Issues – Bob Heuer, Guy Hurley Blaser & Heuer, LLC
9:15 to 9:20AM  Break

Advanced Tax Topics

9:20 to 9:50AM  Doing Business Outside US – Bill Kingsley, UHY
9:50 to 10:20AM  Tax Update – John Gallo, UHY
10:20 to 10:30AM  Closing Remarks and Open Discussion— Kurt Siebenaller, UHY
ATTENDEE CHECKLIST

• CPE materials
  • Pick up at the registration desk
  • Sign in, complete/return evaluation form, pick up certificate

• Questions
  • Fill out question card on top of attendee materials (we will collect later)

• Keep a look out for a post-event email
  • Download a copy of the PowerPoint presentation
  • Link to view the webcast video

• Pre-register for 2013 (2014 Outlook)

• Get on our mailing list to receive Construction Insider E-Newsletter
ABOUT UHY LLP

Local Facts
• More than 40 years of experience
• Practice leaders with Big 4 experience and training
• More than 250 employees
• Offices in Farmington Hills and Sterling Heights
• Ranked 7th largest professional services firm in Metro Detroit by Crain's Detroit Business

National Facts
• 15 offices across the U.S.
• More than 1,000 employees
• Ranked one of the Top 25 professional services firms by Accounting Today

International Facts
• UHYI established in 1986 and based in London, UK
• Member firms in more than 250 cities in over 81 countries
• More than 6,800 member firm employees
• Ranked among the Top 25 largest international accounting and consultancy networks (by fee income)
U.S. LOCATIONS

GEORGIA
ATLANTA
Five Concourse Parkway
Suite 2450
Atlanta, GA 30328
Telephone: 678-602-4400
Fax: 678-602-4300

ILLINOIS
CHICAGO
30 S. Wacker Dr.
Suite 1330
Chicago, IL 60606
Telephone: 312-578-9600
Fax: 312-346-6500

MARYLAND
COLUMBIA
6851 Oak Hall Lane
Suite 300
Columbia, MD 21045
Telephone: 410-720-5220
Fax: 410-381-2524

MICHIGAN
Metropolitan Detroit
FARMINGTON HILLS
27725 Stansbury Boulevard
Suite 200
Farmington Hills, MI 48334
Telephone: 248-355-1040
Fax: 248-355-1084
STERLING HEIGHTS
12900 Hall Road
Suite 500
Sterling Heights, MI 48313
Telephone: 586-254-1040
Fax: 586-254-1805

MISSOURI
ST. LOUIS
15 Sunnen Drive
Suite 100
St. Louis, MO 63143
Telephone: 314-615-1200
Fax: 314-647-8304

NEW YORK
ALBANY
66 South Pearl Street
Suite 400
Albany, NY 12207
Telephone: 518-449-3166
Fax: 518-449-5832
NEW YORK
UHY Advisors NY, Inc.
19 West 44th Street
New York, NY 10036
Telephone: 212-381-4700
Fax: 212-354-6445
-UHY Advisors FLVS, Inc.
19 West 44th Street
New York, NY 10036
Telephone: 646-746-1120

WHITE PLAINS
800 Westchester Avenue
Suite North 641
Rye Brook, NY 10573
Telephone: 914-697-4954
Fax: 914-697-7583

NEW JERSEY
OAKLAND
153 Bauer Drive
Oakland, NJ 07436
Telephone: 201-337-0009
Fax: 201-337-4462

TEXAS
DALLAS
1717 Main, Suite 2400
Dallas, TX 75201
Telephone: 214-243-2900
Fax: 214-243-2929
HOUSTON
UHY Advisors TX, LLC
12 Greenway Plaza, Suite 200
Houston, TX 77046
Telephone: 713-960-1706
Toll-free: 800-949-1706
Fax: 713-960-9549
-UHY Advisors SALT, LLC
3555 Timmons, Suite 1100
Houston, TX 77027
Telephone: 713-548-0900
Fax: 713-407-3760

WASHINGTON D.C.
WASHINGTON
1325 G Street NW
Suite 500
Washington, D.C. 20005
Telephone: 202-609-6100
GLOBAL NETWORK

 Americas
 Argentina
 Brazil
 Canada
 Chile
 Colombia
 Dominican Republic
 Ecuador
 El Salvador
 Jamaica
 Guatemala
 Mexico
 Peru
 Puerto Rico
 United States
 Uruguay
 Venezuela

 Asia-Pacific
 Australia
 Bangladesh
 China (inc Hong Kong)
 India
 Indonesia
 Kazakhstan
 Japan
 Korea (Rep. of)
 Malaysia
 New Zealand
 Pakistan
 Singapore

 Europe
 Albania
 Austria
 Belarus
 Belgium
 Bulgaria
 Czech Republic
 Croatia
 Cyprus
 Denmark
 Estonia
 Finland
 France
 Germany
 Greece
 Guernsey
 Hungary
 Ireland
 Isle of Man
 Italy
 Latvia
 Lithuania
 Luxembourg
 Malta
 Netherlands
 Norway
 Poland
 Portugal

 Romania
 Russian Federation
 Slovakia
 Slovenia
 Spain
 Sweden
 Switzerland
 Turkey
 Ukraine
 United Kingdom

 Middle East & Africa
 Azerbaijan
 Angola
 Bahrain
 Egypt
 Israel
 Jordan
 Kenya
 Republic of Kuwait
 Lebanon
 Mauritius
 Morocco
 Nigeria
 South Africa
 Tunisia
 UAE
CONSTRUCTION OUTLOOK 2013

LANCE BINONIEMI
MITA
VICE PRESIDENT OF GOVERNMENT AFFAIRS
Roads and bridges in Michigan are funded by user fees—gas taxes and registration fees.

- **User Fees**
  - Federal Gas Tax = 18.4 cents/gallon
  - State Gas Tax = 19 cents/gallon in Michigan
  - Registration Fees = Based on value of a vehicle
  - Toll Roads (none in Michigan)

- **Sales Tax**
  - Some states allocate sales tax to transportation investment. Michigan collects 6% sales tax on gasoline purchases, a vast majority of which is not used for transportation purposes.
Michigan’s gas tax is one of the lowest in the Great Lakes region.

COMPARISONS

- * Toll Roads
- ** Local Option for Gas Tax

Source: the American Road and Transportation Builders Association
Michigan’s investment in transportation per capita is the lowest among neighboring states, which is almost half of what Pennsylvania spends per person.

<table>
<thead>
<tr>
<th>State</th>
<th>Rank</th>
<th>Investment per Person</th>
</tr>
</thead>
<tbody>
<tr>
<td>Michigan</td>
<td>42nd</td>
<td>$277.22</td>
</tr>
<tr>
<td>Ohio</td>
<td>41st</td>
<td>$278.57</td>
</tr>
<tr>
<td>Indiana</td>
<td>39th</td>
<td>$310.84</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>32nd</td>
<td>$336.26</td>
</tr>
<tr>
<td>Illinois</td>
<td>28th</td>
<td>$349.35</td>
</tr>
<tr>
<td>Minnesota</td>
<td>19th</td>
<td>$405.78</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>9th</td>
<td>$521.26</td>
</tr>
</tbody>
</table>

Source: US Census/ Federal Highway Administration
Our gas tax revenue has declined steadily since 2005 while the cost of materials used to rebuild our infrastructure continue to rise.

Source: Michigan Department of Treasury
Similar to gas tax revenue, our overall transportation revenue has also declined steadily since 2005.
Going back in history, revenues allocated for roads have seen many peaks and valleys.

MTF Revenues Allocated for Roads 1945-2010

- **1947**: Diesel Fuel Tax enacted at 5¢ per gal.
- **1951**: Gas Tax increased to 4.5¢ per gal.
- **1955**: Gas Tax increased to 6¢ per gal.
- **1957**: Gas Tax increased to 19¢ per gal.
- **1967**: Both Gas and Diesel Tax increased by 7¢ per gal.
- **1972**: Gas Tax increased to 9¢ per gal.
- **1978**: Diesel Tax increased to 9¢ per gal. Gas Tax increased to 11¢ per gal.
- **1980**: Diesel Tax increased to 11¢ per gal.
- **1983 & 1984**: Both Gas and Diesel Tax increased 15¢ per gal. Vehicle Registration Tax shifted to Value Based Tax.

**Other MTF Revenues**

- Registration Tax
- Diesel Tax Revenues
- Gas Tax Revenues

Currently, only 18% of Michigan roads are in good condition.

Current Road Conditions
2010 Pavement Condition (Federal aid)

- **GOOD**: 35%
- **FAIR**: 47%
- **POOR**: 18%

Source: TAMC 2010 PASER Data Collection Figure 1
The percentage of good and fair roads continues to decline while the percentage of poor roads continues to rise.

Source: Michigan Transportation Asset Management Council
The condition of our local roads are worse than federal-aid eligible roads.

**2008-2011 Pavement Condition of Non-Federal Aid Eligible Roads**

PERCENT OF LANE MILES

Source: Michigan Transportation Asset Management Council
Compared to other Great Lakes States, Michigan has the highest percentage of bridges that are rated structurally deficient.

Source: MDOT April 2011, Figure 2
Under the current investment strategy, the future is bleak. By 2023, 65% of Michigan roads will be rated in poor condition.

Source: A special message by Gov. Rick Snyder; Reinventing Michigan’s Infrastructure: Better roads drive better jobs
Analysis: Anderson Economic Group, LLC (2012)
### $ Saved in Unnecessary Maintenance Costs Over 7 Years

<table>
<thead>
<tr>
<th>Year</th>
<th>Increase In Fees</th>
<th>Cash Return</th>
<th>You Save</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$115</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>2</td>
<td>$230</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>3</td>
<td>$345</td>
<td>$370</td>
<td>$25</td>
</tr>
<tr>
<td>4</td>
<td>$460</td>
<td>$740</td>
<td>$280</td>
</tr>
<tr>
<td>5</td>
<td>$575</td>
<td>$1,110</td>
<td>$535</td>
</tr>
<tr>
<td>6</td>
<td>$690</td>
<td>$1,480</td>
<td>$790</td>
</tr>
<tr>
<td>7</td>
<td>$805</td>
<td>$1,850</td>
<td>$1,045</td>
</tr>
</tbody>
</table>

By investing in our infrastructure, the motoring public will save money by avoiding unnecessary maintenance and repair.
Projected Michigan Statewide Annual Fatal Crash Costs
By 2022

We can reduce crash costs by $1 billion with increased funding.

* Based on information from The Road Information Program, “Where Are We Going? 2012”
We can save 100 lives annually with increased funding.

Projected Michigan Traffic Fatalities Between 2012-2022

* Based on information from The Road Information Program, “Where Are We Going? 2012”
Many communities recognize the need to improve their roads and bridges and voted in favor of increasing their millages to pay for those improvements.

* Based on information from BRIDGE MAGAZINE, August 2012.
CONTACT INFORMATION

LANCE BINONIEMI, VICE PRESIDENT OF GOVERNMENT AFFAIRS
MITA
LANCEBINONIEMI@MI-ITA.COM
The Mystery of Economic Forecasting
Construction is Booming!
Thousands of New Jobs!
New Housing Starts Surge!
The Outlook is Bright!
Major Job Loss as Industry Struggles

2,600 Jobs Lost in Past 12 Months
2013 CONSTRUCTION OUTLOOK

• No increase in activity over 2012
• Pent-up demand in several sectors
• Slight increase in residential
• Waiting for decision-makers to decide
AGC CONTRACTORS

Building Your Quality of Life

AGC Michigan

A CHAPTER OF THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA
Spectrum Health
Detroit Medical Center
Sparrow Hospital
Henry Ford Health
Detroit Public Schools: $500 million Project
• Seven New Schools
• 10 Major Renovations
• Police & Command Center
Ford, GM & Chrysler

• Increased Market Share
• Increased Profitability
• More Construction?
High Tech, High Paying Jobs

• A growth sector in the regional marketplace
  • Renovations of existing buildings
    • New Construction?
ENERGY PROJECTS

25 x 25 Proposal

Bright Idea, but Bad for the Economy
DOwnTOWN DETROIT

Projects Currently Underway

• $300 million Wayne County Jail
• $55 million-plus Detroit Police Headquarters Building
• $220 million renovation of Cobo Center.

Projects on the Horizon?

• New International Bridge Crossing
• New Home for the Detroit Red Wings
New Home Permits are Up!
Existing Home Sales are Up!
Will the Trend Continue?
Contractors Guide to Survival

• Slim Margins
• Diversify the Business Mix
• Work in Other States
• Seek Set-Asides through Certifications
$1 billion in nonresidential spending:

- Adds about $3.4 billion to our country’s GDP
- Adds about $1.1 billion to personal earnings
- Creates or sustains 28,500 jobs.
In 2010 annual pay of all construction workers in the United States averaged $49,588 - 7% more than the average for all private-sector employees.
Despite the dark clouds and the economic reality, we remain optimistic about the Michigan economy and the future of construction in our state.
IN CLOSING...

Thank you!
CHRIS MESO, AGC BOARD MEMBER
CMESO@MOBILEAIR.COM
Accounting methods:

- For non-controlled entities:
  - Equity method for 20% to 50% (note that this is not a substitution for consolidation...)
  - Cost method for 0% to 20%
Presentation issues – acceptable methods

1. Consolidation
2. Partial or proportionate consolidation
3. Expanded equity method
4. Equity method
5. Cost method
Capital contributions and Sales to a JV

- Generally an investment in a JV is recognized at cost under the equity method.
- Generally, contribution of other assets should be recorded on the venturer’s books at NBV unless a loss is evident.
- Be aware that sales between a JV and its majority owner are not deemed to be at arms-length. Venturer should not recognize and profit until it has been realized through transactions with outside 3rd parties (ie: customers).
Variable interest entities (ie: everybody’s favorite topic...)

• May be required to consolidate a <50% interest in a JV if the JV has been determined to be a variable interest entity and the reporting entity is determined to be the primary beneficiary of the JV
• Will require use of judgment to determine
JOINT VENTURES – ACCOUNTING CONSIDERATIONS

Losses in excess of a Venturer’s Investment, Loans and Advances:

• An equity method investor should record losses up to the carrying amount, including any additional financial support made or committed to by the investor

• Examples of additional financial support
  • Capital contributions
  • Investments in additional common/preferred stock
  • Loans and advances to the investee
  • Investments in debt securities
Disclosures in a Venturer’s Financial Statements for the equity method:

- Name and ownership %
- Accounting policies used
- Differences between carrying value and the underlying equity in net assets, if different, and the accounting treatment if the difference
- If amounts are material to the f/s overall – disclose summarized info re: assets, liabilities and results of operations...
Auditing Considerations:

- Is the JV reported in accordance with an appropriate method
- Is the JV audited
- Reviewing the JV agreement for items such as
  - Capital and funding requirements and ability to fund
  - Ownership %’s
  - Profit/loss ratios
  - JV duration
  - Performance requirements of participants
  - Financial guarantees or recourse
AICPA Audit & Accounting Guide – Construction Contractors

This is a great reference tool to have handy
CONTACT INFORMATION

ROB SCOPE, PRINCIPAL
UHY
RSCOPE@UHY-US.COM
586-843-2569
CONSTRUCTION OUTLOOK 2013

ED BOUCHER, PARTNER
BARRY JENSEN, PARTNER
KOTZ SANGSTER WYSOCKI P.C.
Joint Ventures – Legal Perspectives

Kotz Sangster Wysocki P.C.
- Full Service Law Firm
- Construction Law Specialists

Barry J. Jensen, Esq.
bjensen@kotzsangster.com

R. Edward Boucher, Esq.
rboucher@kotzsangster.com
Joint Ventures

What is a joint venture?

“Joint venture means an association of two or more firms to carry out a single, for-profit business enterprise, for which the parties contribute their property, capital, efforts, skills, and knowledge.”
Joint Ventures – The Entity Choice

Select the appropriate type of entity:

- Contrary to popular belief, there is no such thing as a “Joint Venture” entity
- Three basic types of entities are used to form joint ventures:
  • Corporation
  • Partnership
  • Limited Liability Company (LLC)
Joint Ventures – Member Relations

JV Members usually owe each other fiduciary duties:

- Disclosure of true and complete information
- Render an accounting
- Hold assets in trust for the JV
Joint Ventures – The Agreement

The Joint Venture agreement is a critical document.

Consequences of the agreement make it worth the investment:

- Legal
- Tax
- Business relationship
- Risk distribution
Joint Ventures – The Agreement

JV agreements should address:

- Management structure
- Dispute resolution
  - Management impasse
  - Member default
- Capital contributions – initial and on-going
- Reimbursements – e.g., labor, equipment
- Distributions – during project and at conclusion
- Accounting
- Tax Matters Partner
Joint Ventures – The Agreement

JV agreements should also address:

- Member indemnity
  - Claims
  - Losses
- Licenses and regulatory requirements
- Risk sharing
  - Subcontractors
  - Division of work or scope
  - Warranty work
- Termination of the JV entity
Joint Ventures – Preference Programs

Local and Federal regulations govern joint ventures seeking qualification under preference programs.

Qualifications for each program must be evaluated individually.
Joint Ventures – Tips for Success

1. Involve legal, accounting, and bonding professionals when you establish the JV – this will save time and money later.

2. “Follow the Money” – make sure you understand how money will flow in and out of the joint venture.

3. Do not re-use joint venture agreements from other projects.
Joint Ventures – Tips for Success

4. Understand the duties and risks imposed on you by the JV agreement.

5. Cancel the General Agreement of Indemnity when the project ends to avoid exposing yourself to your partner’s obligations on other projects.

6. Understand the licensing and other requirements for the work to be performed.
JOINT VENTURES – SURETY BOND ISSUES

• Evaluation of....
  – Financial Strength
    □ Working Capital
    □ Net Worth
    □ Profitability
    □ Bank Debt
• Evaluation of....
  – Project Risk
    • Experience with Owner
    • Geography
    • Labor market
    • Technical complexity
JOINT VENTURES – SURETY BOND ISSUES

• Evaluation of....
  – Partners’ Compatibility
    • Complementary Skills?
    • Division of Labor
      – Contractual Risk Management
        JV Agreement, Subcontracts, Insurance
      – Administration
      – Accounting
      – Operations
Impact of JV on each partner’s bonding program
- Effect on aggregate capacity
- Sureties’ ongoing underwriting of partner
CONTACT INFORMATION

BOB HEUER, VICE PRESIDENT & PARTNER
GUY HURLEY BLASER & HEUER
RHEUER@GHBH.COM
CONSTRUCTION OUTLOOK 2013

REFRESHMENT BREAK
A NEW DIRECTION?

• Driving Force – 70% of world’s population will live in urban areas by 2040
• Commercial, Residential & Industrial
  – World’s New Consumers
• Global Infrastructure
  – Energy
  – Natural Resources
  – Transportation
  – Technology
A NEW DIRECTION

Global Trends

• Europe
  – No rebound before 2014
  – Infrastructure demand even more pessimistic

• Asia
  – China largest construction market in world
  – Most countries will see >7% growth

• Africa
  – Mixed picture

• Americas
  – Significant growth in South America (Brazil, in particular)
  – U.S.: Stagnant
INTERNATIONAL OVERVIEW

Just Visiting?

• Income Taxes
  – Less than 183 days
    □ Treaty Definitions
• Other Tax Consequences
  – VAT
  – Payroll
  – Withholding
More Permanent stay

- **Branch**
  - U.S. Company conducting business in foreign country
  - Registration
  - Tax Consequences

- **Entity**
  - Generally Preferred
  - Many choices
  - Capitalization
    - Debt/Equity
  - Tax Consequences
INTERNATIONAL OVERVIEW

International Operations

• Company
  – Corporate Tax
  – Foreign Tax Credit
    □ Important mechanism to eliminate double tax
  – Transfer Pricing
  – Compliance Reporting

• Employee
  – Individual Income Tax
    □ Withholding
    □ Reporting
  – Expat Agreements
INTERNATIONAL OVERVIEW

Getting Your Cash Out

• Dividend
  – Country limitations
  – Tax Inefficiencies

• Other Forms
  – Management Fees
  – Royalties
  – Other

• Exit Strategy
  – Sale
  – Liquidation
SPECIFIC ISSUES – BY COUNTRY

Various Countries

- Mexico
- China
- India
- Canada
BILL KINGSLEY, MANAGING DIRECTOR
UHY
WKINGSLEY@UHY-US.COM
248-204-9464
JOINT VENTURES AND TAX RETURNS

• Choice of entity
  • S Corporation vs. LLC – do you understand the difference?

• Setting up the organizational documents
  • Significant tax implications
    • Losses and distributions – who is first, who is second, etc.
  • Who is responsible for preparation of the tax return
  • Who will be the “Tax Matters Partner”

• Unforeseen circumstances
  • Filing requirements for owners of joint venture
  • Unitary rules
  • Tax return implications
  • Know your partners
TAX ACCOUNTING FOR THE CONSTRUCTION INDUSTRY

• Methods of Accounting for Tax Returns
  • Cash or Accrual
  • Percentage of Completion
  • Completed Contract
  • Accrual Less Retainage
  • 10% Elective Deferral

• Section 460 Cost capitalization
  • Required by code
  • Can result in beneficial deferrals

• Lookback calculations
  • May be required if applicable
  • Job fade results in refunds of interest to taxpayers
What will be the tax rules to navigate?

Will taxes be increased? Will taxes be cut?

Does someone have a crystal ball?

There are a lot of unanswered questions that won’t be known until the eleventh hour....
WHAT WE DO KNOW

• December 31, 2012
  • Bush Tax Cuts of 2001 and 2003 are set to expire

• January 1, 2013
  • Addition of the FICA Hospital Insurance Payroll Tax (FICA-HI Tax) .9%
  • Addition of the 3.8% Medicare Contribution Tax (MC Tax)
  • New Investment Tax on Unearned Income
BUSH TAX CUTS EXPIRE

• Several tax cuts are set to expire at the end of the year

• Some key changes are:

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top income tax rate</td>
<td>35%</td>
<td>39.6%</td>
</tr>
<tr>
<td>Top long term capital gains rate</td>
<td>15%</td>
<td>20%</td>
</tr>
<tr>
<td>Qualified dividends</td>
<td>15%</td>
<td>Ordinary rate</td>
</tr>
</tbody>
</table>
BUSH TAX CUTS EXPIRE

- Some additional changes:

<table>
<thead>
<tr>
<th>Itemized Deductions</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Not phased out</td>
<td>Phased out by 3% of excess AGI</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Or 80% of the itemized deductions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>allowable</td>
</tr>
<tr>
<td>Estate, gift and GST</td>
<td>$5,000,000</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>tax exemptions</td>
<td>Maximum tax rate</td>
<td>Maximum tax rate</td>
</tr>
<tr>
<td></td>
<td>35%</td>
<td>55%</td>
</tr>
</tbody>
</table>
FICA HOSPITAL INSURANCE PAYROLL TAX (FICA-HI TAX)

- Part of the Patient Protection and Affordable Care Act (PPACA)
- High-income earners subject to additional payroll tax of .9% above threshold amounts

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Threshold Amounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married filing jointly</td>
<td>$ 250,000</td>
</tr>
<tr>
<td>Married filing separately</td>
<td>$ 125,000</td>
</tr>
<tr>
<td>Single individual or head-of-household</td>
<td>$ 200,000</td>
</tr>
</tbody>
</table>
FICA HOSPITAL INSURANCE PAYROLL TAX (FICA-HI TAX)

- FICA-HI Tax is added to the current Medicare FICA portion
  - .9% added to standard 1.45% for a total rate of 2.35% above the threshold amounts
  - Imposed only on the employee (not the employer)
  - Because it is part of the Medicare portion the tax does not cease to apply at any particular wage level
  - Not inflation-adjusted – more individuals may be subject
3.8% MEDICARE CONTRIBUTION TAX (MC TAX)

• 3.8% Medicare tax on certain unearned income of individuals, trusts and estates

• For individuals, the tax is calculated by multiplying the 3.8% rate by the lessor of:

  1) Net investment income for the year; or
  2) Modified adjusted gross income (MAGI) exceeding the threshold amount

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Threshold Amounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married filing jointly</td>
<td>$ 250,000</td>
</tr>
<tr>
<td>Married filing separately</td>
<td>$ 125,000</td>
</tr>
<tr>
<td>Single individual or head-of-household</td>
<td>$ 200,000</td>
</tr>
</tbody>
</table>
3.8% MEDICARE CONTRIBUTION TAX (MC TAX)

Net Investment income includes:
- Interest, dividends, capital gains
- Annuities, rents, royalties
- Passive income from a trade or business
- Net gain on sale of a principal residence (above exclusion amounts)
- Net income from “a trade or business trading in financial instruments”
- Net gain on the disposition of passive activity property

Net investment income does NOT include:
- Distributions from qualified plans, IRAs, pension plans or profit sharing plans
- Tax-exempt income (i.e. municipal bond interest)
- Income subject to self-employment
- Cash surrender value building up inside of a life insurance policy
- Royalties from oil and gas
3.8% MEDICARE CONTRIBUTION TAX (MC TAX)

• Taxpayers who have net investment income, but MAGI is below these threshold amounts will NOT be subject to the MC tax

and

• Individuals with MAGI above these thresholds but without net investment income will not be subject to the tax
### Combined Effect of Tax Rates

<table>
<thead>
<tr>
<th></th>
<th>Max Rates</th>
<th>Max Rates</th>
<th>Total Max Rate including 3.8%</th>
<th>Total Max Rate if subject to .9% FICA rate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2012</strong></td>
<td>2013</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long term cap gains</td>
<td>15%</td>
<td>20%</td>
<td>23.8%</td>
<td>NA</td>
</tr>
<tr>
<td>Qualified Div</td>
<td>15%</td>
<td>39.6%</td>
<td>43.4%</td>
<td>NA</td>
</tr>
<tr>
<td>Ordinary income (not wages)</td>
<td>35%</td>
<td>39.6%</td>
<td>43.4%</td>
<td>NA</td>
</tr>
<tr>
<td>Wages (including Medicare portion)</td>
<td>36.45%</td>
<td>41.05%</td>
<td>NA</td>
<td>41.95%</td>
</tr>
</tbody>
</table>
WHAT'S A TAXPAYER TO DO?

• Get with their CPA!

• Accelerate Income and Capital Gains, in certain situations

• Defer Income and Capital Gains, in other situations

• Reduce Taxable Income, in certain situations

• Defer losses and deductions, in other situations
ACCELERATE INCOME AND CAPITAL GAINS

• Roth IRA Conversion in 2012
  • Taxable event – in 2012 using lower rates not 2013
  • Tax free growth

• Capital Gain Assets
  • Sell appreciated assets prior to 12-31-12 to trigger 15% cap gain rate
  • If you are subject to MC Tax selling cap gains assets saves 3.8% + 5% = 8.8% Tax!
DEFER INCOME AND CAPITAL GAINS

• Retirement Accounts
  • Distributions from IRAs and other retirement accounts exempt from the MC tax
  • Shift wages to retirement plans as much as possible

• 1031 Exchanges
  • Defer recognition of tax on sale to future date
  • Specific rules regarding 1031 exchanges – identifying properties, need to plan ahead

• Installment Sales
  • Gain is recognized only on the payments received
  • Could help to keep you under threshold limits of MC tax
REDUCE TAXABLE INCOME

• Municipal Bonds
  • Use tax-free municipal bonds in your portfolio – income is not considered net investment income
  • Rebalancing portfolio could generate capital gains so be careful in doing so

• Growth Investments
  • Qualified dividends at 15% go away in 2013
  • Shift portfolio from income-producing to growth investments
DEFER LOSSES AND DEDUCTIONS

• Hold potential loss transactions until 2013

• Capital Gain Losses
  • Value of capital gain losses go from 15% to potentially 23.8% or higher in 2013

• Itemized Deductions
  • More valuable in 2013
  • Itemized are phased out in 2013 so need to be cautious
THINGS TO DO IN NOVEMBER AND DECEMBER

• Watch the post-election events unfold
• Communicate with your financial consultants
• Plan
CONTACT INFORMATION

JOHN GALLO, SENIOR MANAGER
UHY
JGALLO@UHY-US.COM
248-204-9339
CONSTRUCTION OUTLOOK 2013

PANEL DISCUSSION