

5 TAX REDUCTION STRATEGIES

FOR

CONSTRUCTION BUSINESS OWNERS



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Introduction

Running a construction business is both challenging and rewarding, but achieving real financial success takes more than just finishing projects on time and staying within budget.

Construction companies face unique financial hurdles, especially when it comes to managing complex tax requirements.

Without careful planning, taxes can quickly cut into profits, making it harder to stay competitive and grow.

By using smart tax-saving strategies, you can improve your bottom line and free up funds to reinvest in your business—whether that's for new equipment, hiring skilled workers, or expanding your services.

Good tax planning not only protects profits but also helps you manage cash flow better and set your company up for long-term success.

In this guide, we'll go over five practical tax reduction strategies designed specifically for construction business owners.

These strategies will help you cut down on tax expenses, strengthen cash flow, and build a solid financial foundation for the future.

Let's get started with these essential steps to secure your company's financial health.



STRATEGY

01



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**Leverage
Industry-Specific
Tax Deductions**

Leverage Industry-Specific Tax Deductions

STRATEGY

#01

Construction companies often require heavy investments in equipment, vehicles, and tools.

Thankfully, there are several deductions tailored to offset these costs and reduce taxable income, giving construction businesses a powerful way to maximize cash flow and preserve profit.

Section 179 Deduction

The Section 179 deduction allows businesses to deduct the entire cost of qualifying equipment and software in the year they're purchased.

Instead of depreciating these assets over several years, Section 179 enables immediate deduction, which can significantly reduce your tax bill in the year of acquisition.

- **Why Section 179 Matters:** Large equipment purchases can create substantial financial strain. Section 179 helps alleviate this by allowing you to recover a portion of the investment quickly, improving cash flow and providing immediate tax relief.
- **What Qualifies:** Most construction equipment, vehicles, and business-use software qualify. Items like excavators, bulldozers, and even computer software for project management are eligible for Section 179.

Example Savings: If your business invests \$150,000 in equipment, you can deduct the entire amount in the first year, potentially saving \$30,000 or more in taxes, depending on your tax rate. This deduction not only offsets your tax liability but also reduces the financial impact of equipment costs.

Bonus Depreciation

Bonus depreciation allows businesses to deduct a large portion (up to 100%) of qualifying property in the year it's placed in service.

Unlike Section 179, there is no annual cap on bonus depreciation, making it particularly useful for construction companies with substantial equipment or vehicle purchases.

- **When to Use Bonus Depreciation:** If you plan to purchase multiple assets, bonus depreciation can cover additional items that exceed Section 179 limits.
- **Flexible Application:** Bonus depreciation applies to both new and used assets, which is beneficial for construction companies that frequently purchase pre-owned equipment.

Actionable Tip: Consider timing significant equipment purchases near the end of the fiscal year to maximize deductions without sacrificing cash flow.

#01

Leverage Industry-Specific Tax Deductions

Consult your tax advisor to determine the best approach for combining Section 179 and bonus depreciation, based on your projected income and cash needs.

Tip: Regularly review these expenses to ensure you're capturing every eligible deduction, as these can accumulate over time and create substantial savings.

Additional Deductible Expenses

Construction companies can deduct various other costs essential to their operations.

These deductions might include fuel, equipment maintenance, insurance, and repairs, all of which are integral to keeping your business running efficiently and profitably.





STRATEGY

#02



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**Optimize Your
Business Structure
for Maximum
Tax Efficiency**

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STRATEGY

#02

Choosing the right business structure is crucial for construction business owners, as it directly impacts tax liabilities, liability protection, and eligibility for certain deductions.

For companies in the construction industry, optimizing business structure can reduce taxes and safeguard profits.

S-Corporation Election for LLCs

While LLCs offer flexibility and liability protection, owners are subject to self-employment taxes on the company's entire net income.

By electing S-corporation status, owners can take a reasonable salary, with the remaining profits distributed as dividends, which are not subject to self-employment taxes.

- **How S-Corp Status Saves Taxes:** With an S-corporation, only the salary portion is subject to payroll taxes, while distributions are not. This structure reduces overall self-employment taxes, preserving more profit.
- **Example Savings:** For a construction company with \$200,000 in net income, electing S-corporation status and taking a \$100,000 salary could save thousands in self-employment taxes.

Tip: IS-corporation status is ideal for profitable construction businesses with steady income. Review salary amounts with your advisor to ensure compliance with IRS guidelines on “reasonable compensation.”

Multi-Entity Structures

As construction businesses grow, separating assets and operations into multiple entities can offer additional tax and liability benefits.

In a multi-entity setup, one entity may own equipment while another handles the actual construction work. This allows for deductible lease payments, reducing taxable income while providing asset protection.

- **Benefits of a Multi-Entity Setup:** Multi-entity structures enable tax-efficient transactions between related entities and can protect valuable assets from operational risks.
- **Example Application:** A construction company could have one entity owning real estate or equipment, while a second entity manages project contracts. The project entity leases equipment from the asset-holding entity, creating deductible expenses for the construction entity and generating income for the asset entity.

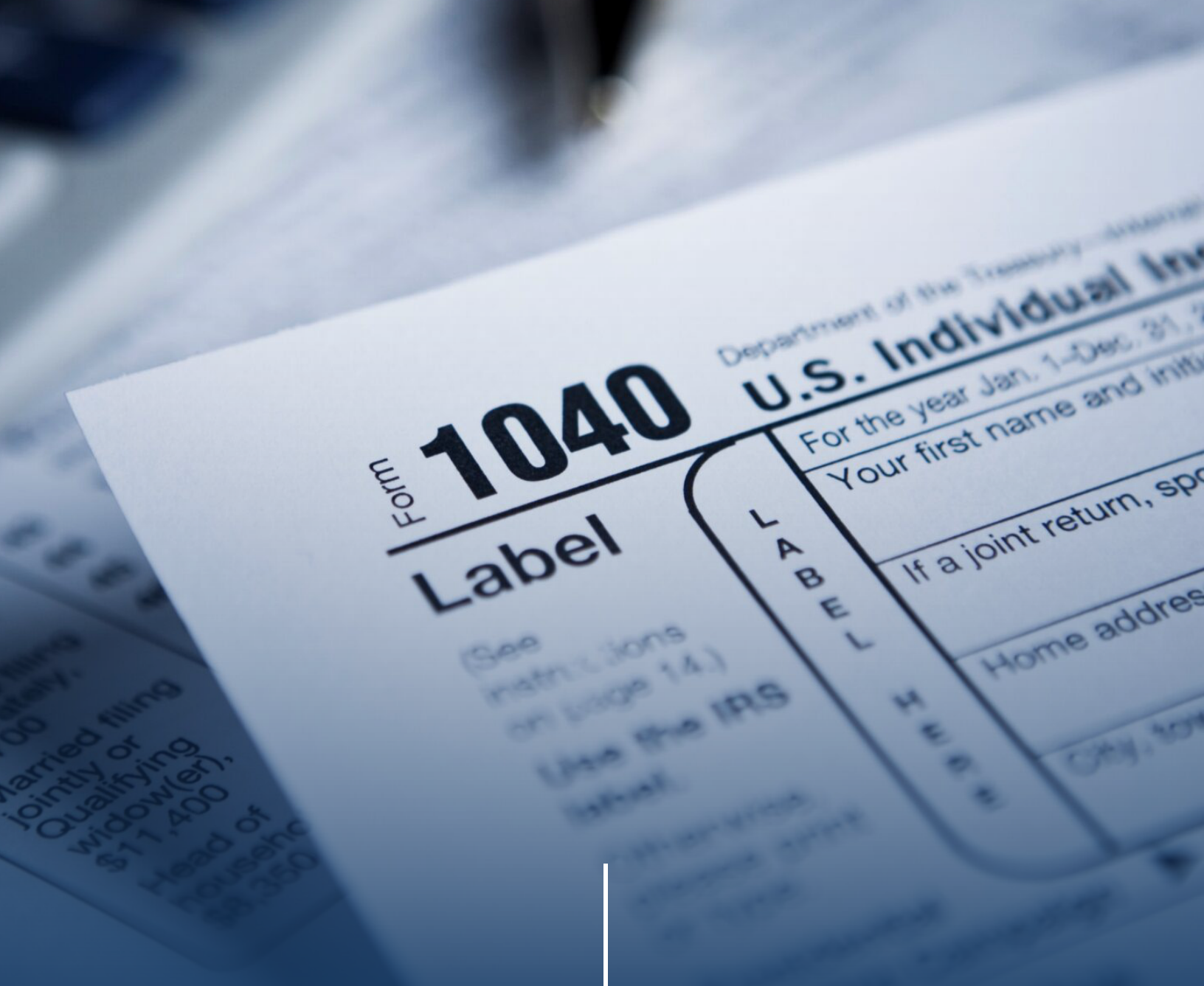
STRATEGY

#02

Optimize Your Business Structure for Maximum Tax Efficiency

Actionable Tip: If your business owns real estate, significant equipment, or multiple locations, consult a tax advisor to determine if a multi-entity structure can enhance tax efficiency and asset protection.





STRATEGY

#03



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Implement Tax-Advantaged Retirement Plans for Owners and Employees

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STRATEGY

#03

Offering retirement plans is not only a tax-saving strategy but also an essential tool for attracting and retaining skilled labor in the construction industry.

Retirement contributions are generally tax-deductible, allowing business owners to reduce taxable income while providing employees with valuable benefits.

Types of Tax-Advantaged Retirement Plans

- **SEP IRAs:** Simplified Employee Pension (SEP) IRAs are easy to establish and allow contributions of up to 25% of an employee's salary (up to \$66,000 annually). SEP IRAs are particularly beneficial for smaller construction firms with variable cash flow.
- **SIMPLE IRAs:** SIMPLE IRAs offer flexibility for small businesses and allow both employer and employee contributions. Employees can contribute up to \$15,500 (with an additional catch-up for those over 50), while employers provide a matching contribution.
- **401(k) Plans:** For larger construction firms, 401(k) plans allow higher contribution limits and the option of both employer and employee contributions. For sole proprietors or owner-only businesses, Solo 401(k)s offer even greater flexibility with high contribution limits.

Why Retirement Plans Benefit Your Business

Establishing a retirement plan not only creates tax savings but also makes your business more attractive to potential hires, helping you retain skilled workers in an industry with high turnover.

- **Tax Savings for Owners:** Contributions to retirement plans reduce taxable income, providing immediate savings in high-income years.
- **Employee Retention:** Retirement benefits are an attractive incentive for employees, enhancing loyalty and reducing turnover, which can lead to more stable, reliable project teams.

Actionable Tip: Consult with a financial advisor to determine the best retirement plan for your business's needs. The right retirement plan maximizes tax savings and increases employee satisfaction, creating long-term benefits for your company.



STRATEGY

#04



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Maximize Tax Credits for Construction Businesses

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STRATEGY

#04

In addition to deductions, tax credits can directly reduce your tax liability, providing dollar-for-dollar savings.

Several tax credits are available to construction businesses, from workforce-based credits to energy efficiency incentives, which can collectively reduce tax costs substantially.

Work Opportunity Tax Credit (WOTC)

The WOTC offers a federal tax credit for businesses that hire individuals from specific target groups, such as veterans, people with disabilities, and economically disadvantaged individuals.

By hiring from these groups, construction companies can support community growth and access significant tax savings.

- **Credit Amount:** The WOTC can provide a credit of up to \$9,600 per eligible employee, directly reducing taxes owed.
- **Example of WOTC Savings:** If a construction business hires five eligible employees, it could qualify for nearly \$50,000 in credits, directly offsetting tax costs.

Energy-Efficient Building Credit

For companies focused on building energy-efficient structures or upgrading existing buildings, the energy-efficient building credit provides substantial tax savings.

Credits apply to both residential and commercial buildings and can be claimed for improvements such as efficient HVAC systems, insulation, and lighting.

- **Benefits for Eco-Friendly Construction:** Contractors working on green building projects can receive tax credits, reducing the cost of compliance with energy efficiency standards and promoting environmentally responsible practices.

Research and Development (R&D) Credit

The R&D credit isn't just for high-tech industries—construction businesses that invest in new construction techniques, sustainable materials, or innovative processes can also qualify.

This credit applies to companies working on process improvements, sustainable building practices, or other innovative methods.

#04

Maximize Tax Credits for Construction Businesses

- **Example of R&D Savings:** A construction business exploring new materials to improve building durability and energy efficiency could qualify for this credit, reducing tax costs and offsetting the expense of innovation.

Actionable Tip: Review your projects and hiring practices with a tax advisor to identify applicable credits. Often overlooked, these credits can create substantial savings and align with company values like sustainability and diversity.





STRATEGY

05



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**Schedule Quarterly
Tax Reviews to
Minimize Tax
Surprises and
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STRATEGY

#05

Construction companies face unique financial challenges, with seasonal fluctuations and the timing of contract payments leading to irregular income.

Scheduling quarterly tax reviews helps you adjust tax payments based on actual earnings, reducing the risk of underpayment penalties and improving cash flow management.

Benefits of Quarterly Tax Reviews

- **Accurate Tax Payments:** Quarterly reviews allow you to adjust estimated tax payments in real-time, helping to avoid large tax bills at year-end.
- **Cash Flow Planning:** Regular reviews provide insights into upcoming cash needs, allowing you to better allocate resources during high-cost periods without compromising tax payments.
- **Safe Harbor Compliance:** The IRS allows businesses to avoid underpayment penalties by paying at least 100% of the prior year's taxes or 90% of the current year's estimated liability, which is especially helpful for construction companies with fluctuating income.

Conducting Effective Quarterly Reviews

During each quarterly review, meet with your tax advisor to analyze your current financials, project future income, and adjust your tax payments as needed.

Proactive adjustments ensure that your tax obligations align with your cash flow, minimizing surprises and maximizing flexibility.

Actionable Tip: Set up quarterly reviews with your tax advisor to stay on top of estimated payments, cash flow, and profit projections. This approach keeps your business financially secure and minimizes stress from unexpected tax liabilities.



Conclusion:

Navigating the world of taxes in the construction industry can be challenging, with many unique considerations that can impact your financial success.

However, by taking a proactive approach to tax planning, construction business owners can significantly improve their bottom line and free up valuable resources.

With the right strategies, taxes can become less of a burden and more of a manageable part of your financial planning.

Each of the five strategies we discussed offers unique benefits that can lead to substantial savings.

These strategies include leveraging industry-specific deductions, choosing an optimized business structure, implementing tax-advantaged retirement plans, taking full advantage of available tax credits, and scheduling regular tax reviews.

When applied thoughtfully, these tactics not only reduce tax liabilities but also strengthen your company's cash flow, making it easier to plan for the future and invest in growth opportunities.

By actively managing your tax obligations and making strategic financial decisions, you can build a resilient financial foundation for your business.

Imagine having more funds available to upgrade equipment, expand your team, or pursue larger projects—all because you have a clear tax plan in place.

These savings can empower your business to stay competitive in the market, improve profitability, and support long-term growth.



About The Author

Julio Gonzalez, EA

Construction Accountant and Tax Strategist

With over 16 years of experience in tax planning and accounting, Julio Gonzalez is a dedicated advocate for construction business owners, helping them navigate the complex world of finance and taxation.

His journey into tax strategy was sparked by a personal experience 18 years ago when an IRS audit led to a \$120,000 liability due to a negligent tax preparer.

Determined to prevent others from facing similar challenges, Julio immersed himself in tax education, becoming an Enrolled Agent and earning certification as a tax planner from the American Institute of Tax Planners.

Julio specializes in cash flow management and tax mitigation, providing tailored services such as tax planning, job costing, and customized financial strategies to ensure construction businesses maximize their profitability.

His client-centric approach focuses on taking the time to understand each business's unique challenges and delivering personalized solutions that drive value and long-term success.

Operating nationwide, Julio has helped clients across the U.S. reduce their tax burdens and optimize their financial operations.

In 2022 and 2023, Julio successfully reduced one client's taxable income by \$379,000. In another case, he reduced a client's taxes by \$137,643 in 2023, with a projected \$70,141 reduction in 2024.

These results were achieved through strategic tax planning and by identifying key deductions specific to his clients' unique situations.

With a deep understanding of the financial challenges construction companies face, Julio is committed to delivering proactive, results-oriented financial and tax solutions to help his clients grow and succeed.