



# Construction Surety Forum

November 17, 2021

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor



The information herein has been provided by CliftonLarsonAllen LLP for general information purposes only. The presentation and related materials, if any, do not implicate any client, advisory, fiduciary, or professional relationship between you and CliftonLarsonAllen LLP and neither CliftonLarsonAllen LLP nor any other person or entity is, in connection with the presentation and/or materials, engaged in rendering auditing, accounting, tax, legal, medical, investment, advisory, consulting, or any other professional service or advice. Neither the presentation nor the materials, if any, should be considered a substitute for your independent investigation and your sound technical business judgment. You or your entity, if applicable, should consult with a professional advisor familiar with your particular factual situation for advice or service concerning any specific matters.

CliftonLarsonAllen LLP is not licensed to practice law, nor does it practice law. The presentation and materials, if any, are for general guidance purposes and not a substitute for compliance obligations. The presentation and/or materials may not be applicable to, or suitable for, your specific circumstances or needs, and may require consultation with counsel, consultants, or advisors if any action is to be contemplated. You should contact your CliftonLarsonAllen LLP or other professional prior to taking any action based upon the information in the presentation or materials provided. CliftonLarsonAllen LLP assumes no obligation to inform you of any changes in laws or other factors that could affect the information contained herein.



# Welcome

Mike Stephens, Principal

WEALTH ADVISORY | OUTSOURCING  
AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen  
Wealth Advisors, LLC, an SEC-registered investment advisor



# U.S. GAAP and Assurance Update

Paul Valaisa, Manager

WEALTH ADVISORY | OUTSOURCING  
AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen  
Wealth Advisors, LLC, an SEC-registered investment advisor

# U.S. GAAP and Assurance Update

- New Lease Standard
  - Old lease standard = capital (BS) vs operating (not on BS)
  - New lease standard = finance (BS) vs operating (BS)
  - Election for leases < 1 year to not recognize asset + liability
  - Lessor accounting largely unchanged
  - Effective for private companies for fiscal years beginning after December 15, 2021 (Year ended December 31, 2022)
  - Effect on financial statements, footnotes, ratios, KPIs, covenants, etc.
- New Auditor Reporting Standards
  - Primarily a change in presentation of auditor's report
  - Effective for private companies for fiscal years ending on or after December 15, 2021 (Year ended December 31, 2021).





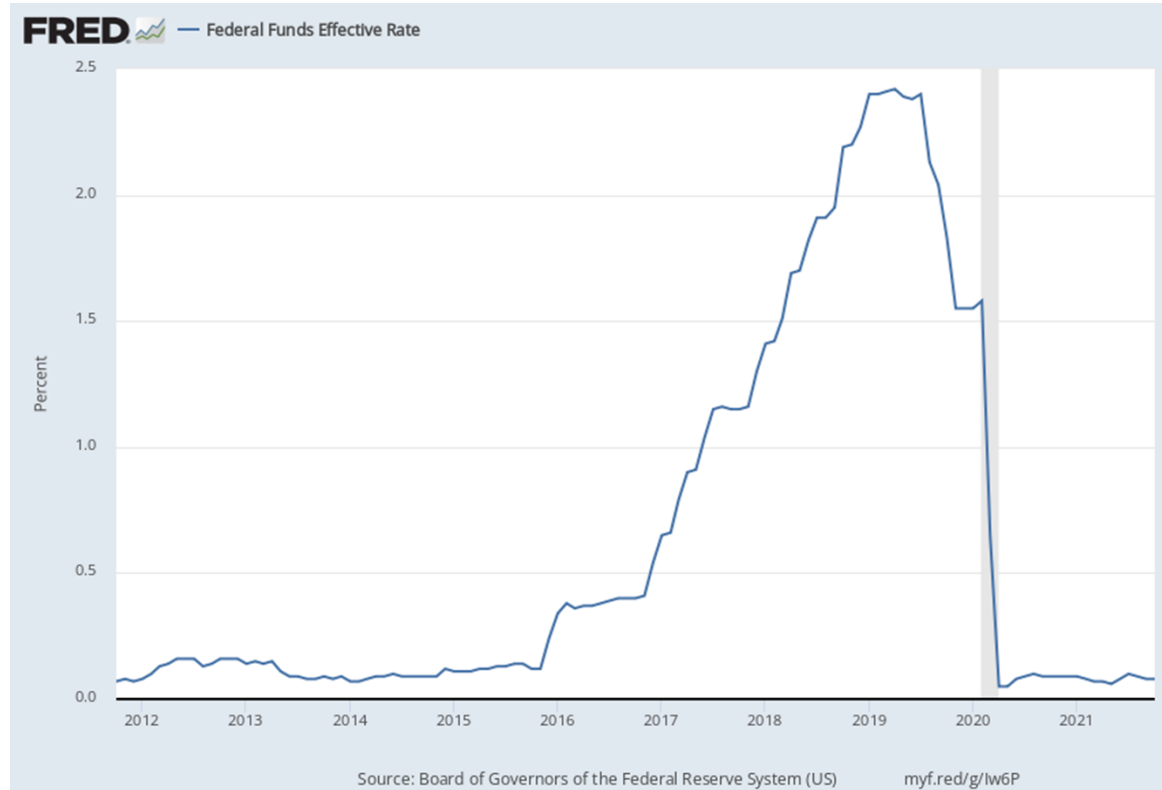
# Economic and Market Update

Julian Einfrank, Senior Wealth Advisor

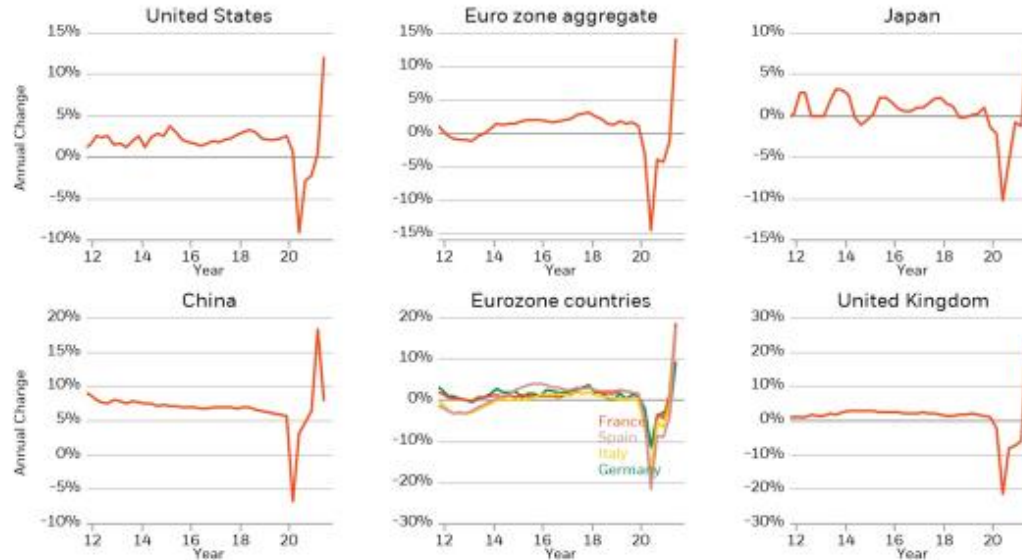
WEALTH ADVISORY | OUTSOURCING  
AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen  
Wealth Advisors, LLC, an SEC-registered investment advisor

# Interest Rates



# Real GDP Growth

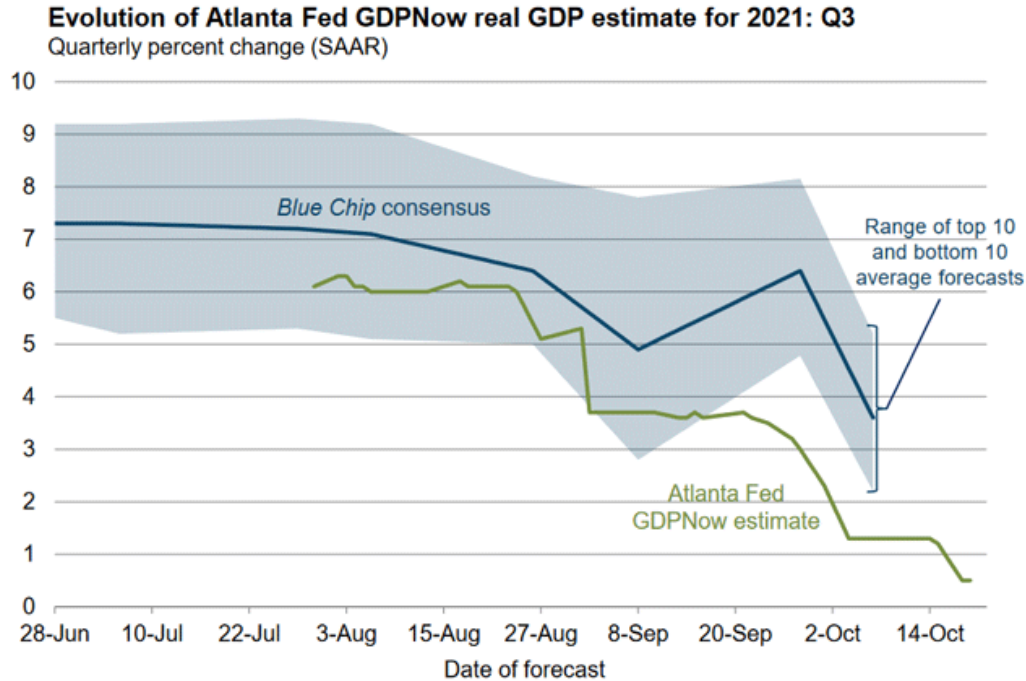


Source: Refinitiv Datastream and National Statistics Offices, chart by BlackRock Investment Institute. Sep 30, 2021  
Note: The lines show the year-over-year real GDP growth for specific economies.

CEWAM1823125-1836279-13







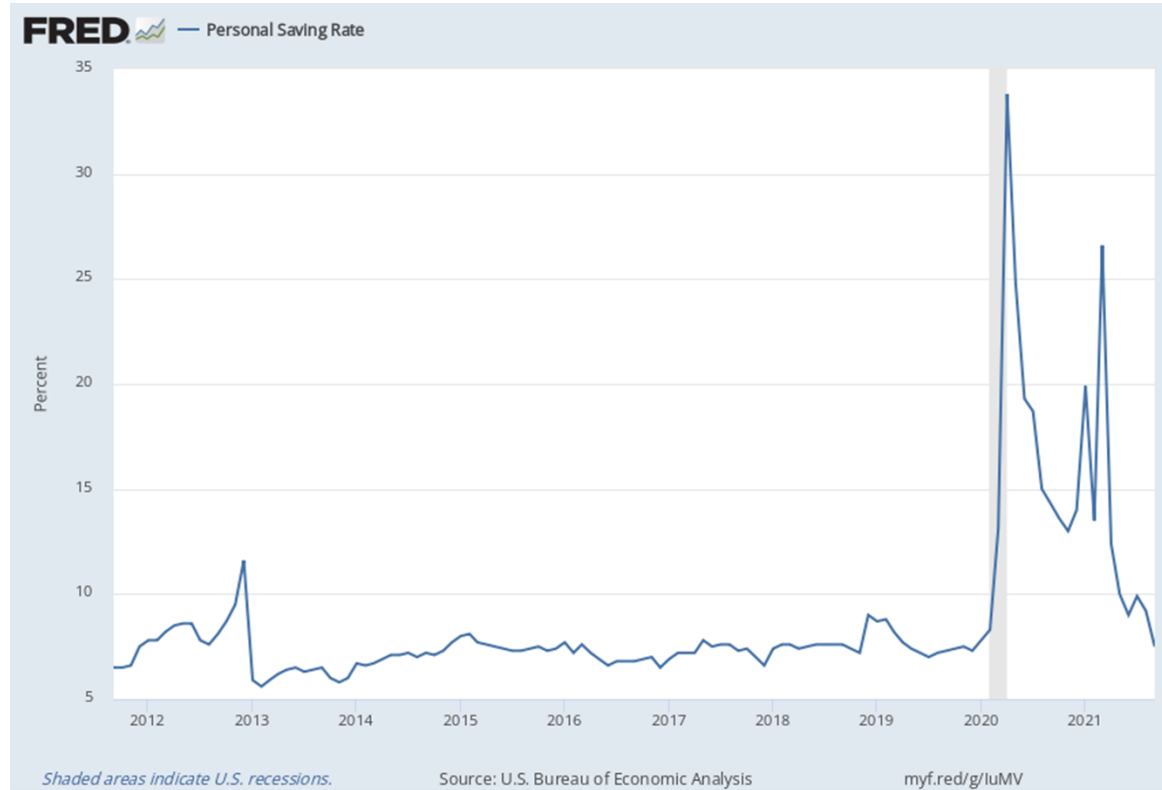
**Sources:** Blue Chip Economic Indicators and Blue Chip Financial Forecasts

**Note:** The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

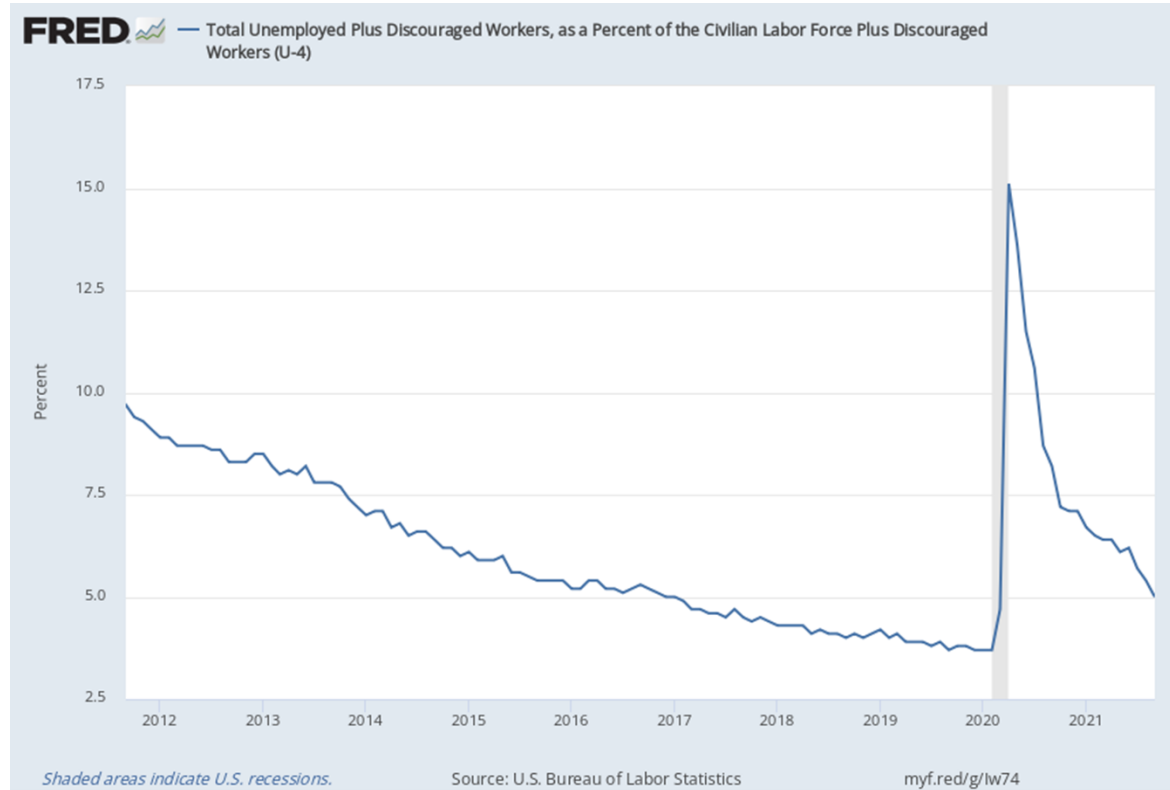


# Personal Savings Rate

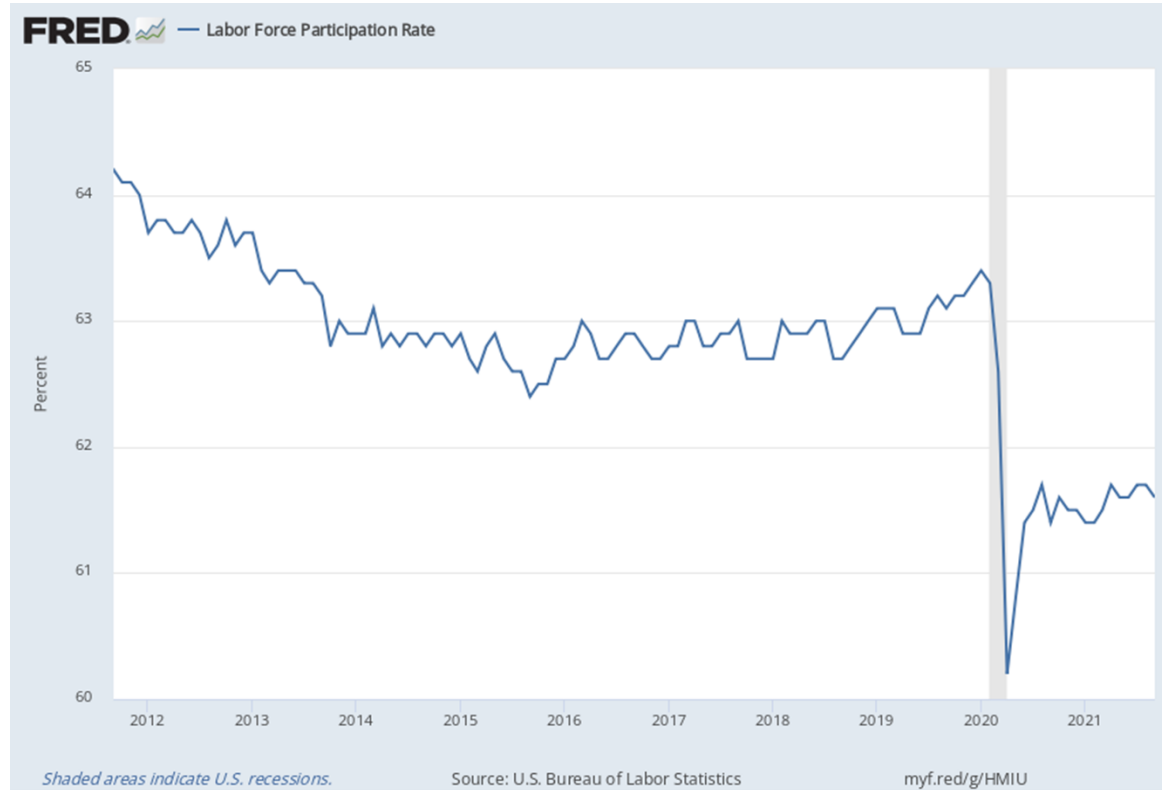
- Rising savings come at expense of consumption if wages or credit are not also increasing



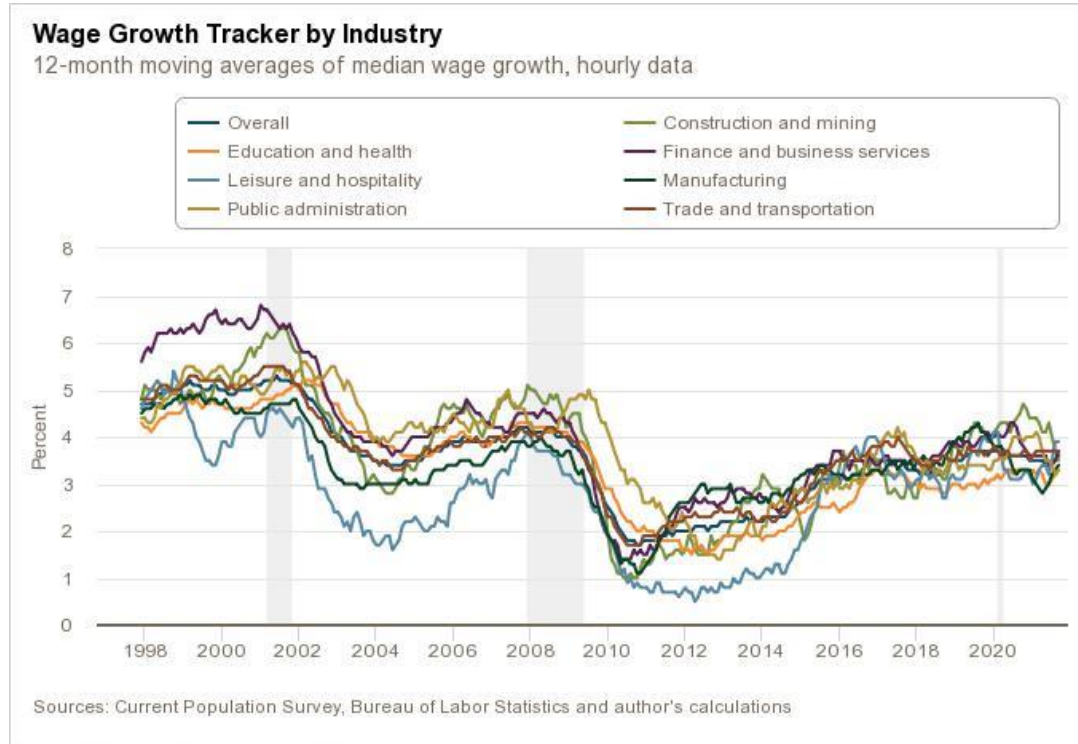
# Full Employment



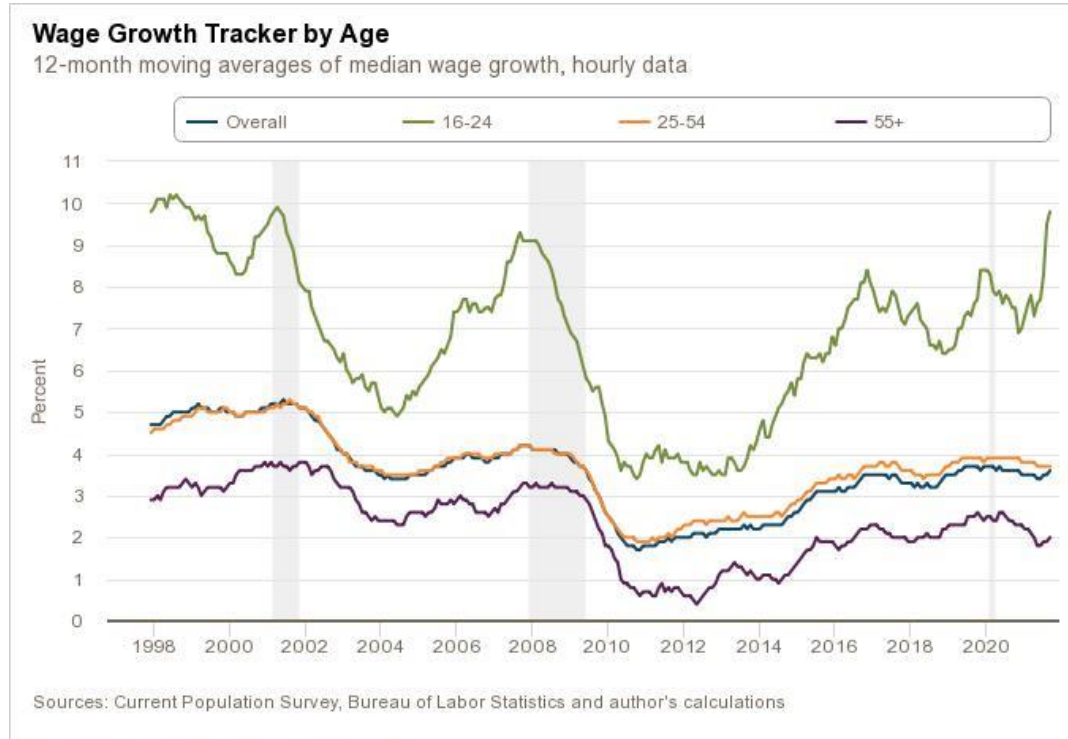
# Demographics



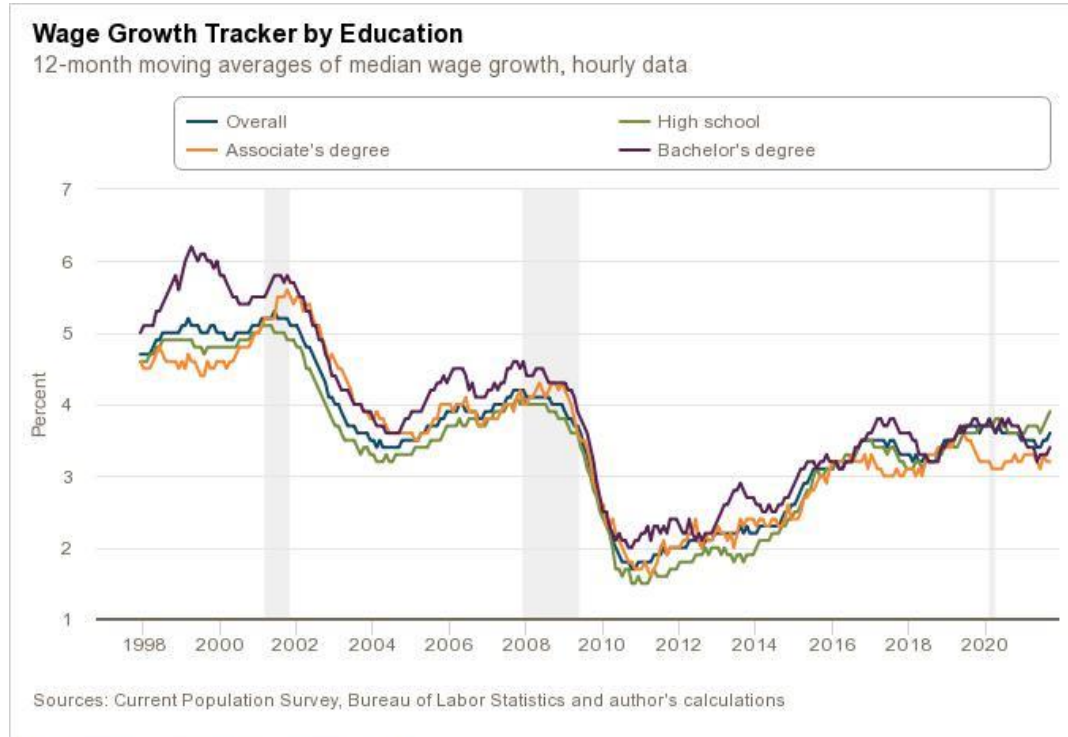
# Wage Growth



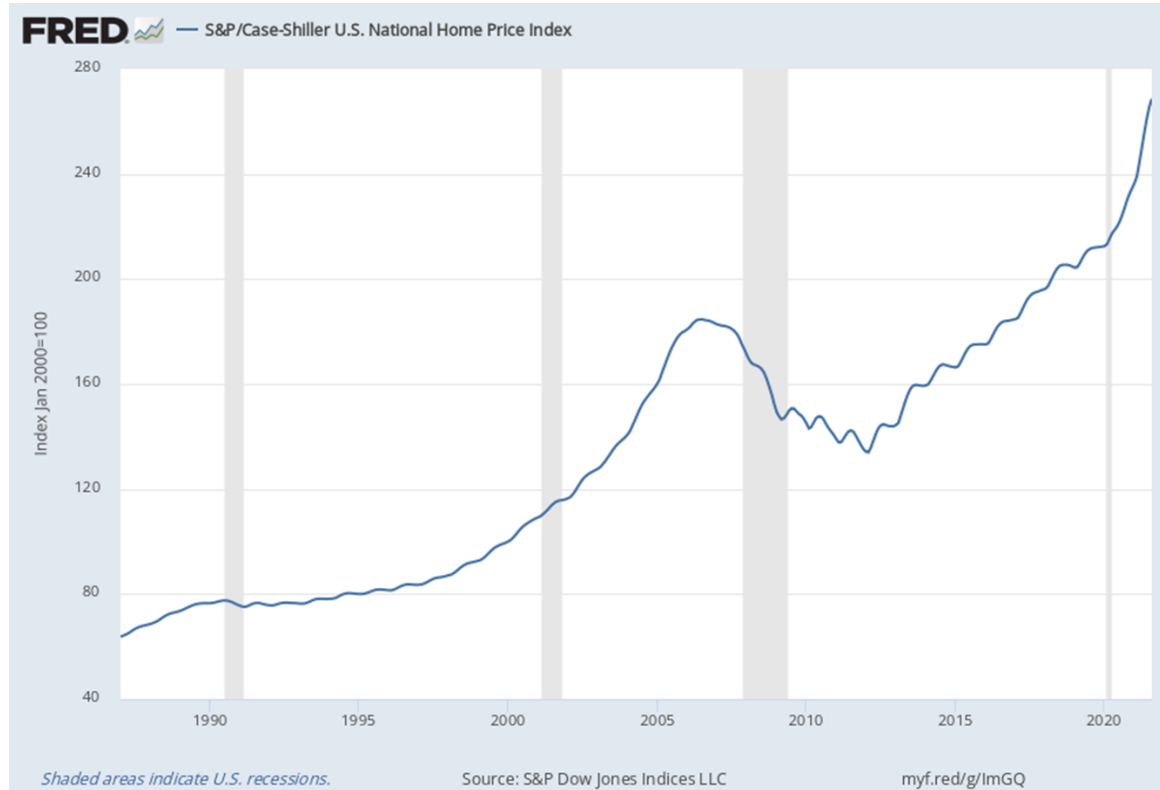
# Wage Growth – Pt.2



# Wage Growth – Pt.3

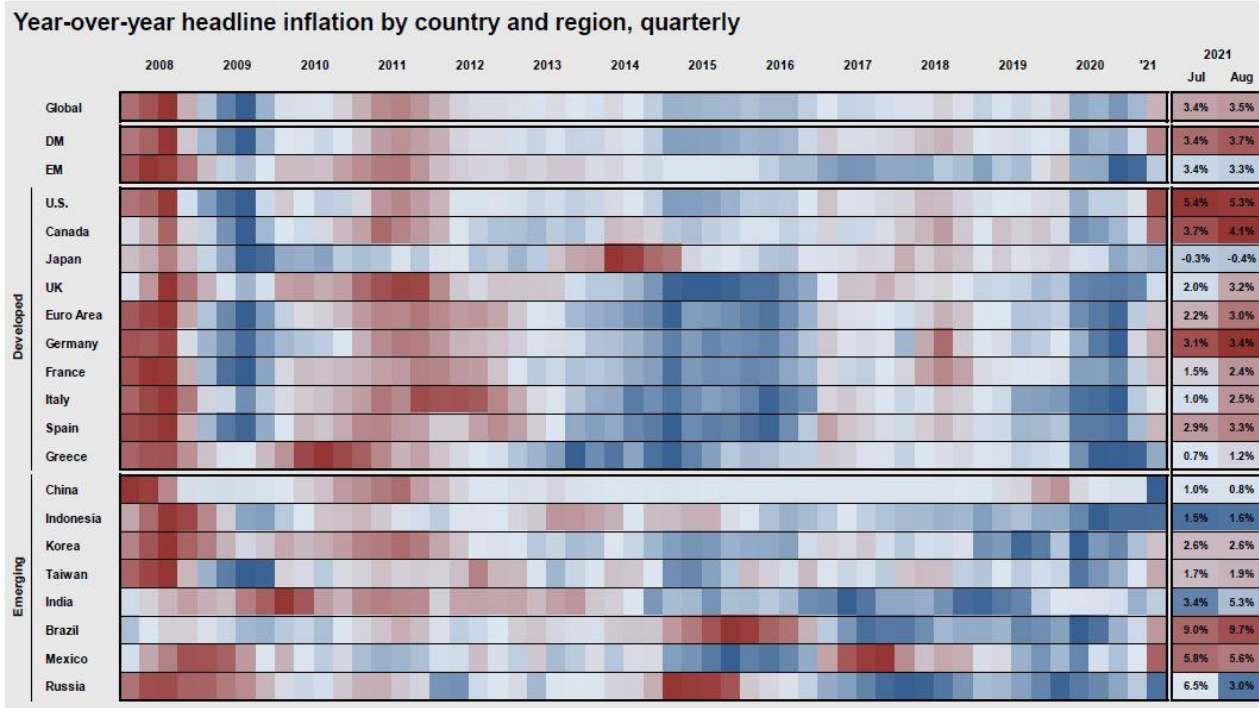


# Housing





# Global Inflation



Source: Bank of Mexico, DGBAS, Eurostat, FactSet, Federal Reserve, Goskomstat of Russia, IBGE, India Ministry of Statistics & Programme Implementation, Japan Ministry of Internal Affairs & Communications, Korean National Statistical Office, Melbourne Institute, National Bureau of Statistics China, Statistics Canada, Statistics Indonesia, UK Office for National Statistics (ONS), J.P. Morgan Asset Management.

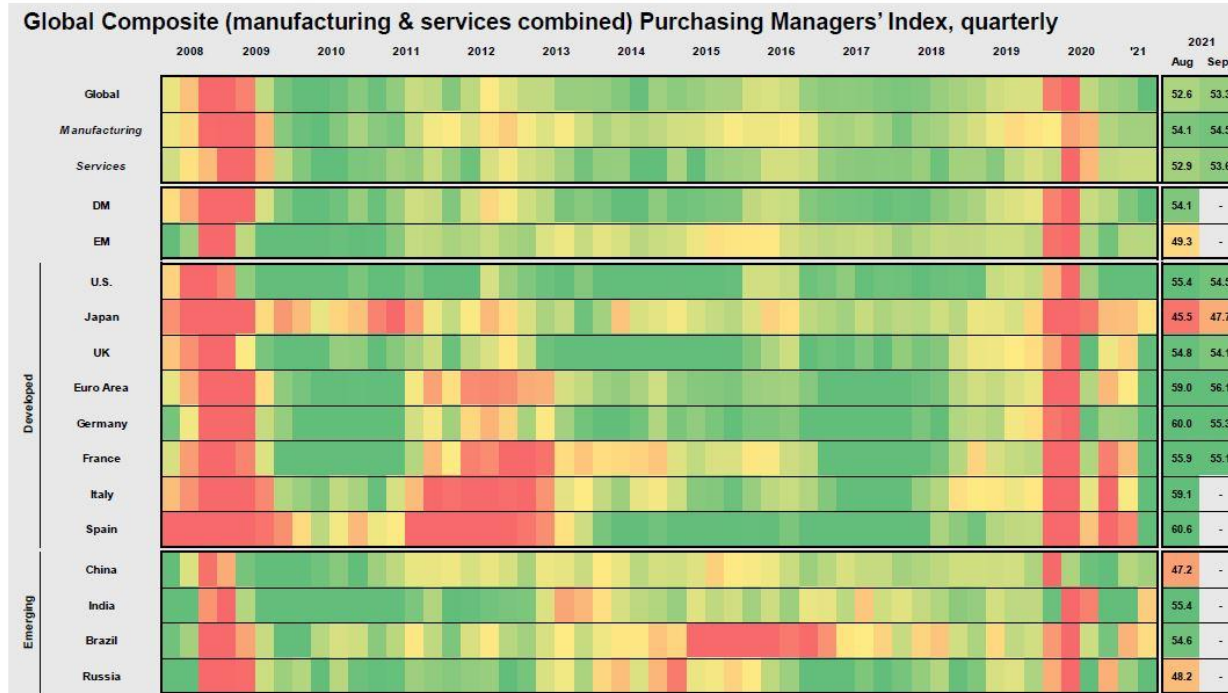
Heatmap is based on quarterly averages, with the exception of the two most recent figures, which are single month readings. Colors determined by percentiles of inflation values over the time period shown. Deep blue = lowest value, light blue = median, deep red = highest value. DM and EM represent developed markets and emerging markets, respectively.

Guide to the Markets – U.S. Data are as of September 30, 2021.

**J.P.Morgan**  
Asset Management



# Global Manufacturing



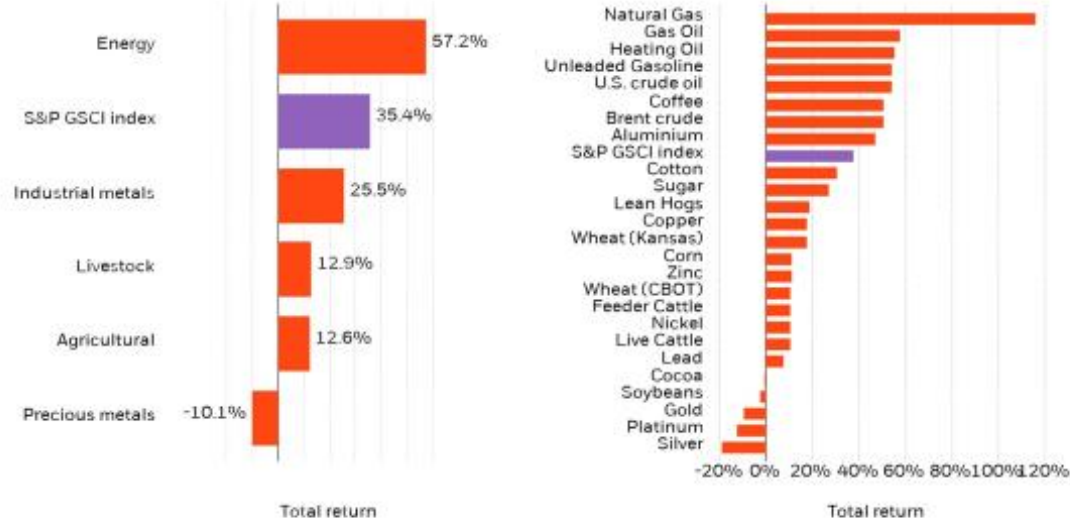
Source: Markit, J.P. Morgan Asset Management.

The Composite PMI includes both manufacturing and services sub-indices. Heatmap colors are based on PMI relative to the 50 level, which indicates acceleration or deceleration of the sector, for the time period shown. Heatmap is based on quarterly averages, with the exception of the two most recent figures, which are single month readings. Data for the U.S. are back-tested and filled in from December 2007 to September 2009 due to lack of existing PMI figures. DM and EM represent developed markets and emerging markets, respectively. \*September Global, Manufacturing, and Services PMIs are based on estimates from J.P. Morgan Asset Management.  
Guide to the Markets – U.S. Data are as of September 30, 2021.

**J.P.Morgan**  
Asset Management



# Commodity Prices

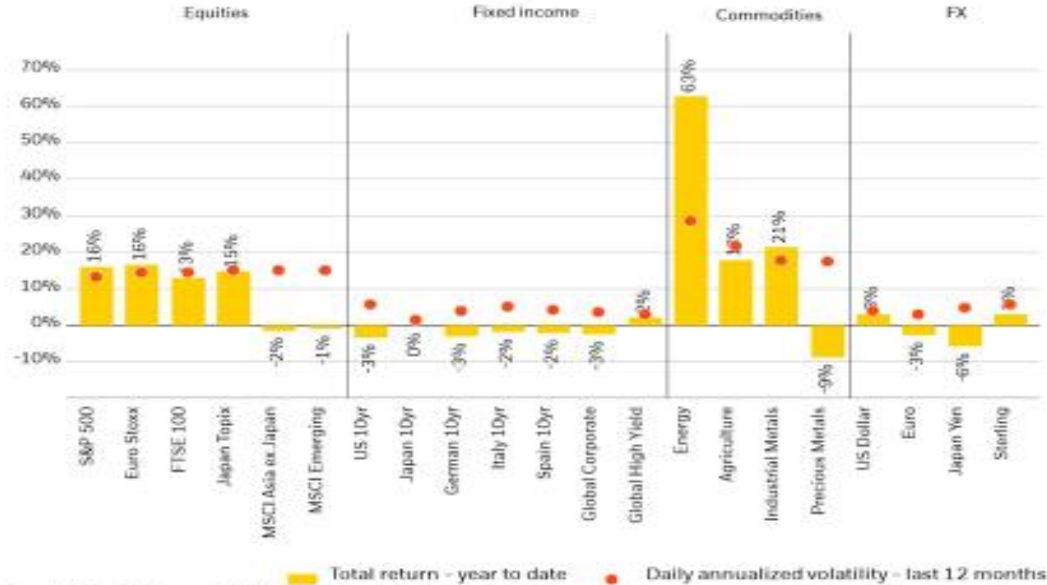


Source: Refinitiv Datastream, S&P and BlackRock Investment Institute Sep 30, 2021  
 Note: The bars show the year-to-date performance of individual commodities in the S&P GSCI index.

UWAM000000-183715-10



# Market Performance and Volatility



Source: Refinitiv Datastream and BlackRock Investment Institute, Sep 30, 2021

Note: Total return in local currency except trade weighted currencies which are spot returns.

US 10yr, Japan 10yr, German 10yr, Italy 10yr and Spain 10yr are represented by the applicable Relativ Benchmark Government Bond Index. Global Corporate is represented by the Bloomberg Global Corporate Bond Index. Global High Yield is represented by the Bloomberg Global High Yield Index. Energy, Agriculture, Industrial Metals and Precious Metals are represented by the applicable S&P GSCI Indexes. US Dollar, Euro, Japan Yen and Sterling are represented by the applicable JP Morgan nominal trade-weighted exchange rate index. Daily annualized volatility is represented by the 12 month standard deviation calculated on daily returns of the applicable index. Note: Total return in local currency except trade weighted currencies which are spot returns.

USWA2d1021US-1838786-0.0



# Economic Regimes Summarized

+ Risk Appetite + Duration	<table><tr><td>Growth accelerating  low or falling inflation rate</td><td>Growth accelerating  steady to rising inflation rate</td></tr></table>	Growth accelerating  low or falling inflation rate	Growth accelerating  steady to rising inflation rate	Risk Appetite + Duration -
Growth accelerating  low or falling inflation rate	Growth accelerating  steady to rising inflation rate			
+ Duration - Risk Appetite	<table><tr><td>Growth decelerating  low or falling inflation rate</td><td>Growth decelerating  steady to rising Inflation rate</td></tr></table>	Growth decelerating  low or falling inflation rate	Growth decelerating  steady to rising Inflation rate	Duration - Risk Appetite -
Growth decelerating  low or falling inflation rate	Growth decelerating  steady to rising Inflation rate			



# Disclosures

*The material presented here represents our opinion and views. As such, we hope it will be useful and informative to you. However, it is not intended as, nor should it be viewed as investment advice or tax advice.*

*CliftonLarsonAllen Wealth Advisors, LLC (“CLA Wealth Advisors”) is an SEC-registered investment advisor that offers a wide array of private wealth advisory services. For more information about CLA Wealth Advisors’ business practices, fees, and services, please refer to our Form ADV Part 2A (the “Disclosure Brochure”). Your investment professional must provide you with a copy of the Disclosure Brochure before or at the time when you enter into a legal agreement with us.*

*Performance can not be guaranteed and any references to past specific performance should not be interpreted as a promise to achieve results. Investing involves various degrees of risk. You may lose money, including the principal of your investment.*

*Before deciding whether to engage CLA Wealth Advisors to manage any investment assets, you should review CLA Wealth Advisors’ Form ADV Part 2A (the “Disclosure Brochure”). Our Disclosure Brochure provides detailed description of CLA Wealth Advisors, its services, fees, and other important information including explanation of conflicts of interest. CliftonLarsonAllen Wealth Advisors, LLC is a wholly owned company of CliftonLarsonAllen LLP.*

*Different types of investments involve varying degrees of risk, including the loss of principal. There can be no assurance that the future performance of any specific investment or investment strategy (including those undertaken or recommended by CLA Wealth Advisors), will be profitable or equal any historical performance level(s).*





# Cybercrime Trends

Mark Eich, Principal

WEALTH ADVISORY | OUTSOURCING  
AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen  
Wealth Advisors, LLC, an SEC-registered investment advisor

# Hackers have “monetized” their activity

- More hacking
- More sophistication
- More “hands-on” effort
- Smaller organizations targeted





# Current State of Affairs

## Organized Crime

- Wholesale theft of personal information

## Ransomware

- Holding your data hostage

## Payment Fraud

- “Corporate Account Take-Over” - aka CATO
- Use of credentials to commit online banking and credit card fraud

## Credential “Harvesting”





# Multi-Factor Authentication Solutions

- MFA is critical
- Silver bullet?
- Text msg?





# Mitigation Keys

- Train users regarding email phishing
  - *Behavior recognition*
- Maintain current patch levels
- Remove local administrators
- Air-gap backups
- Monitor egress traffic





# Mitigation Keys

- ***Maximize relationship with the bank***
- ***Isolate the PC used for online banking***
- Use MFA for all cloud apps
- Implement breach monitoring/IR
- Penetration testing regimen





# Emerging Tax Reform

Alex Warner, Principal

Dan Keane, Senior

WEALTH ADVISORY | OUTSOURCING  
AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen  
Wealth Advisors, LLC, an SEC-registered investment advisor

# Emerging Tax Reform (Where we started...)

On 9/13/21 House Ways and Means Committee released text for the **emerging** \$3.5 trillion reconciliation bill. What was up for discussion?

- **Increase to top individual tax rates** from 37% to 39.6% for incomes > \$400k (\$450k MFJ)
- **Adding a 3 percent surcharge on individuals**, estates, and trusts with modified AGI exceeding \$5 million
- **Expansion of 3.8 percent net investment income tax** to cover income derived in the ordinary course of business for incomes > \$400k (\$450k MFJ)
  - S-Corps would be on level playing field with Partnerships, whose owners pay Self-Employment tax on their earnings



# Emerging Tax Reform (cont...)

- **Limiting the maximum §199A qualified business income deduction to \$400k (S), \$500k (MFJ), and \$250k (MFS)**
  - Potential to significantly increase tax on Passthrough Income (S-Corps & Partnerships)
- **Increase the top long-term capital gains/dividends tax rate from 20 percent to 25 percent for incomes over \$400,000 (S), and \$450,000 (MFJ)**
  - This was proposed to be applicable for gains realized after **September 13, 2021**
  - There would have been an exception for transactions pursuant to a written binding contract entered into before 9/14/21
  - Note: the 3.8 percent net investment income tax would continue to apply to passive and investment gains for incomes over \$200,000 (S), and \$250,000 (MFJ)



# Emerging Tax Reform (cont...)

## C-Corporation Changes

- Increase the top **C-corporate tax rate** to 26.5 percent from 21 percent for corporations with incomes >\$5 million while reducing the rate to 18 percent for some corporations
- While removed from the current proposed version, keep an eye on the changes to C-Corp taxes. Perhaps worth the exercise to analyze your tax structure...





# Revisions (Where we are now...)

On 10/28/21, a new framework of the Build Back Better agenda was released, reducing the original \$3.5 trillion reconciliation bill to \$1.75 trillion, further revised 11/3/21

- **Increasing the surcharge to 5 percent on individuals**, estates, and trusts with modified AGI exceeding **\$10 million**
  - Plus 3 percent for AGI that exceeds \$25 million
- **Maintain the original expansion of 3.8 percent net investment income tax** on ordinary business incomes > \$400k (**\$500k MFJ**)
- **Make permanent the Excess Business Loss Limitation** (non-corporate taxpayers) enacted by TCJA (*Note: CARES Act had removed this limitation for 2018-2020*)
- §199A deduction unchanged



# Revisions to the Original Proposal (cont...)

- **Increase in State and Local tax cap for individuals to \$72,500**
  - Extended through 2031, new \$72,500 cap would apply to 2021 tax year
  - After 2031, the SALT cap would be eliminated
- Does not include the individual and corporate rate increases as proposed by the original bill
  - Tax rate increases could still be on the table
- Proposed significant investment in IRS resources
  - Expanded hiring of enforcement agents
  - Modernizing outdated IRS technology
  - Investing in taxpayer services: attempt to help taxpayers get questions answered timely

*Note: This is not a comprehensive list of the proposals, but represents what may most affect our closely held construction clients*



# Infrastructure Investment and Jobs Act

On 11/5/21, the House of Representative passed the Infrastructure Investment and Job Act (H.R. 3684). President Biden is expected to sign this measure into law:

- 4th quarter 2021 repeal of the **Employee Retention Credit**
  - Only eligible recovery startup businesses can claim the credit in Q4



# Emerging Tax Reform – What is NOT included

- **No changes** to Long-Term contracting rules or accounting methods for contractors
  - % of Completion still required for “Large Contractors”
  - Alternative methods of accounting still available for “Small Contractors”
    - Cash method
    - Completed contract
    - Deferred retentions
    - Many, many, more...
- Taxation for those earning below \$400,000 is not materially changed
- 1031 exchanges are not proposed to change
- Estate/gift exemptions are currently ~\$11.7 million per person
  - Expected this would decrease early from scheduled decrease at end of 2025 but time will tell...
- No change in step-up in basis at death



# Illinois Pass-Through Entity Tax Election

- Elective Illinois income tax for pass-through entities (PTEs) such as Partnerships, S-Corps, and LLCs
  - Annual election must be made. Once made for a given tax year, cannot be revoked for that tax year
  - Applies beginning with tax years ending on or after 12/31/21 and beginning before 1/1/26
  - Income Tax at 4.95% (same as the Illinois individual tax rate)
- PTEs required to make estimated tax payments if \$500 of tax is expected (would not be required to make withholding payments)
  - IDOR will waive late payment penalty for newly electing PTE for tax years ending before 12/31/22



# Illinois (cont...)

- Allows Illinois individuals to deduct IL taxes paid as “above the line” on Federal tax return and reduce trade or business income, rather than as an itemized deduction on Schedule A subject to the SALT cap (currently still at \$10k)
- Credit available on Illinois tax return equal to 4.95% of distributive share of net income. Excess credit is treated as an overpayment
- Calculating net income subject to PTE tax: same definition used for purposes of Illinois income tax excluding:
  - Standard exemptions
  - Deduction for NOL
  - Subtraction for income allocable to a partner subject to income tax



# Illinois (cont...)

- Other Implications
  - This elective PTE income tax law will expire
  - Law does not address or modify the already existing replacement tax. Therefore, electing PTE's will be subject to both



# Thank you for joining! What questions do you have?

**Mike Stephens**

mike.stephens2@CLAconnect.com

**Mark Eich**

mark.eich@CLAconnect.com

**Paul Valaisa**

paulius.valaisa@CLAconnect.com

**Alex Warner**

alex.warner@CLAconnect.com

**Julian Einfrank**

julian.einfrank@CLAconnect.com

**Dan Keane**

dan.keane@CLAconnect.com



CLAconnect.com



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor