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2025

Construction Industry

Outlook

By Janeen Butler, CCIFP & James Liechty, CCIFP

Looking ahead to 2025 and beyond, the construction industry faces both challenges and opportunities for growth in the coming year.

This article explores upcoming legislative changes, industry trends, and tips for setting and keeping corporate and personal goals to prepare for the future.



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MIXED PROJECTIONS FOR 2025

Depending on who you ask about the overall industry landscape, you will likely hear different projections, ranging from a possible recession to continued optimism with strong backlogs and no slowdown in sight. These views reflect challenges like rising labor costs, skilled worker shortages (although easing), interest rate uncertainty, and limited financing.

Legislative tailwinds from the *Infrastructure Investment and Jobs Act (IIJA)*, the *Inflation Reduction Act (IRA)*, and the *Creating Helpful Incentives to Produce Semiconductors Act* also drive demand in sectors such as manufacturing facilities, data centers, and infrastructure.¹

"Through it all, the outlook for construction spending looks positive," stated Anirban Basu, CFMA's Economic Advisor and Chairman and CEO of Sage Policy Group, Inc., in CFMA's June 2024 CONFINDEX report. "With megaprojects

associated with manufacturing facilities, data centers, and infrastructure still apparent, overall spending is on the rise. For contractors associated with these projects, the outlook remains bright, with the greatest challenges revolving around satisfying contractual obligations. But for those in regions or segments lacking megaproject impetus, the general outlook is not nearly as bright."²

To further highlight the varying degrees to which sectors and regions are receiving private and public investments, the White House publishes regularly updated maps of ongoing projects.³

CHANGING TRENDS TO WATCH

For contractors, the macroeconomic factors expected to shape the coming year are due to the following policy and cultural shifts.

Population Growth & Urbanization

The global population is expected to surpass 8.1 billion by 2025,⁴ driving the need for more housing units, especially in urban centers. At the same

time, urban migration continues to fuel demand for residential construction.

Government Incentives

Various government initiatives, including tax incentives and affordable housing programs, support residential construction by increasing the supply of housing available.

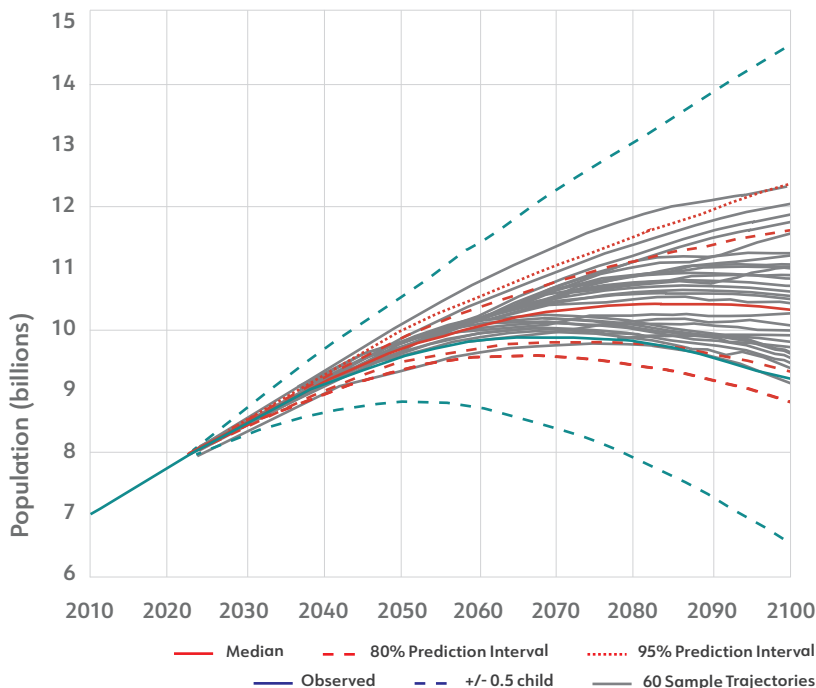
State-level advocates work to secure funding for public education, infrastructure, and essential services.

Compliance with the IRA will continue to be critical for many contractors, especially the prevailing wage requirements.⁵ Companies will need to allocate the necessary resources to comply with these reporting requirements or run the risk of noncompliance, which brings significant consequences.

Shift in Remote Work Trends

The continued rise of remote work in 2023 prompted individuals to seek larger living spaces outside urban cores, sustaining demand for suburban and rural

Exhibit 1: World Population



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housing.⁶ However, many companies are now having employees return to the office, ranging from the expectation of being in the office every day to a hybrid schedule.

Most contractors expect office personnel onsite, with remote exceptions for select roles.

Health Care & Education Investments

The modernization of health care facilities and educational institutions drive construction in these sectors. In particular, aging populations and ongoing public health challenges necessitate investment in health care construction.

Technology & Data Centers

Increasing reliance on digital infrastructure necessitates the construction of data centers and technology hubs.

Supply Chain Stress & Labor Constraints

Supply chain stress has receded, but geopolitical tensions remain. Meanwhile, labor constraints persist, making it difficult to fill open positions and resulting in extended project timelines.

Green Building & Sustainability

Companies are adopting ecofriendly practices, using green building materials and energy-efficient technologies.

The Association of General Contractors of America (AGC) offers a playbook and toolkit to outline sustainability as an industry priority, along with strategies to be at the forefront of this topic.⁷

TAX OUTLOOK

As tax provisions under the *Tax Cuts and Jobs Act (TCJA)* phase out by December 31, 2025,⁸ contractors should prepare for several impactful changes. The following are key areas to watch.

Individual Provisions

- The top income tax rate will rise from 37% to 39.6%.
- Standard deductions for individuals will halve.
- Gift and estate tax exemptions will drop from \$13.61 million to \$5 million (indexed for inflation).⁹

Business Provisions

- Section 199A deduction: The 20% deduction for pass-through entities may sunset, affecting many construction businesses.¹⁰
- Research and development (R&D) expenditures: Mandatory capitalization under IRC §174 could mean higher tax liabilities.¹¹
- Employer credits for paid family and medical leave will no longer be available unless Congress extends it.¹²
- Accelerated depreciation (bonus depreciation) is being phased out. In 2025, it will be at 40%; in 2026, it will be 20%; and in 2027, it will be eliminated.¹³

Many estate planners and attorneys advise adjusting plans now to prepare for the gift and estate tax exemption drop. In addition, they expect their capacity to be limited as December 31, 2025, approaches. While the policy could change between now and then, starting the conversation is highly encouraged.

Aside from individual and business provisions, another area that largely impacts the construction community is IRC §174, specifically the mandatory capitalization of specified research or experimental expenditures under it. For tax years

beginning after December 31, 2021, taxpayers must capitalize and amortize R&D expenses over a period of five years for U.S. R&D expenses and 15 years for non-U.S. R&D expenses.

Before the implementation of this change, taxpayers could deduct these same costs. This requirement has resulted in higher tax burdens for many contractors. Despite bipartisan support, no legislation regarding this capitalization requirement is currently expected to pass in time for the new year. Companies continue to investigate how they may lessen the effects of the §174 capitalization while retaining the benefit of the R&D tax credit.¹⁴

These changes are subject to legislative updates, but construction business owners must still plan ahead. The following are a few ways companies can prepare themselves for the current changes in tax laws.

Consider Your Current Financial State

Assess your financials and projections to gauge how legislative changes will impact your bottom line. For further guidance, look into consulting with a tax professional to understand the specific impacts on your business.

Approach Business Strategy With Flexibility

Given the potential reduction in the §199A deduction, it may be helpful to evaluate your business structure and adjust for future changes. Some companies may consider converting from a pass-through entity (such as an LLC) to a C corporation to benefit from lower corporate tax rates.¹⁵

In addition, consider revisiting your compensation strategy. Owners may need to adjust their salaries or distributions to improve tax benefits.

Tap Into Deductions

Leverage available deductions if they pertain to your business. For example:

- Invest in energy-efficient equipment or technology to qualify for tax credits.



- Consider accelerated depreciation (§179) for eligible assets.¹⁶
- Explore R&D tax credits, if applicable to your industry.

Stay Informed

Keep apprised of legislative changes. Tax laws can evolve, so regularly consult reliable sources or tax advisors to stay in the know. Also consider attending industry-specific seminars or workshops to learn about tax planning strategies.

Map Out Estate & Gift Taxes

With the reduction in estate and gift tax exemptions, it may help your organization to consider estate planning. Consider consulting an estate attorney to explore options for lowering estate taxes.

Get It in Writing

Maintain thorough records of all financial transactions, expenses, and deductions. Proper documentation is essential during audits or tax reviews.

YEAR-END PLANNING

Over the past few years, there have been two significant accounting changes for contractors related to Accounting Standard Codification (ASC) Topic 606, *Revenue from Contracts with Customers*, and ASC Topic 842, *Leases*.¹⁷

While ASC Topic 326, *Financial Instruments – Credit Losses*, required adoption in 2023 for calendar year-end private companies, this standard did not have a material impact on most contractors beyond incremental disclosures.¹⁸

With no other significant accounting changes to consider in 2024, there are other year-end planning items that contractors should consider.

Corporate Goals

Consider a key element of effective planning: *establishing goals*. Best in Class organizations establish goals, but more importantly, they monitor them throughout the year and measure their progress.

Corporate goals can (and should) vary by department within an organization.

These goals should be aligned with the organization's greater mission, vision, and values.

The following are questions to ask when reflecting on the prior year's results:

- Which goals were met and which ones were not?
- Who was responsible for tracking progress toward these goals?
- What actions or behaviors led to successfully meeting certain goals?
- For goals that were not met, what prevented the organization or department from meeting them?
- Were the appropriate personnel aware of the goals and given clear direction on how to support the organization in meeting the goals?
- What were the rewards for or benefits of achieving these goals?

Goals are often established with the best of intentions. However, they can be forgotten or moved to the back burner as more pressing matters are prioritized. Now is a great time to understand your organization's goals for 2025 and revisit how you can support them.

Personal Goals

In contrast, personal goals in this context refer to goals that one pursues in their private life, which often impact workplace performance. For example, improving one's strength through exercise or healthy eating can help with other aspects of wellness. Those potential benefits can be carried over into the corporate world as well.

Similar to corporate goals, these should be developed, monitored, and evaluated. One challenge with personal goals is that they are often only shared with family, close friends, or even colleagues. As a result, accountability can be more difficult, but it is critical in keeping on track throughout the year.

Nobody understands you better than you – use this as a starting point when developing goals for yourself over the next year. Break long-term goals down

into smaller, short-term goals for actionable and attainable progress.

For example, a construction financial professional (CFP) or CFO may have a goal to become an owner, either with their current employer or a future one. That goal will most likely be achieved through the completion of other goals, such as attaining additional credentials (e.g., CCIFP, CPA, IT-related certifications, or MBA).

Becoming an owner may also include the ability to win new contracts for the company. What skills, habits, or processes will you need to support this smaller goal and ultimately achieve the larger goal?

Do not underestimate the importance of investing in yourself, which will pay dividends down the road. And remember: *the road to success is always under construction*.

Looking Ahead

Begin your goal setting journey with a powerful framework to guide you: specific, measurable, achievable, relevant, and time-bound (SMART).

While simple, this framework greatly increases the likelihood of establishing both corporate and personal goals that leave little room for ambiguity and help you think through the small steps needed to succeed.

With respect to seeing results, be sure to give yourself adequate time. According to James Clear's work, it takes approximately 66 days to form a new habit.¹⁹

Remember, pursuing your goals will take work and being consistent is paramount. These new habits, when practiced with intention, can create a path toward successfully achieving your goals.

CONCLUSION

By closely tracking industry trends and adapting to new tax legislation, construction leaders can position their organization for resilience and growth.

Think about the next right focus for you and your organization, and set out a plan to accomplish those goals. Start now to become the best version of yourself at work, at home, and in your community. **BP**

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