The News of the Home Builders Association of West Florida

CORNERSTONE

October 2018

SHORTAGE OF ROUGH CARPENTERS CLIMBS TO RECORD HIGH

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Cornerstone

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President's Message

Bathrooms Top Kitchens as Most Popular Remodeling Projects

Taylor Longsworth

The kitchen is king when it comes to making an impact on a home's identity. Few other spaces in a home can even come close to the significance of the kitchen—making it truly the "heart of the home."

But having a beautiful bathroom is just as, if not more important for many home owners. In fact, according to a recent survey by the National Association of Home Builders (NAHB), bathrooms overtook kitchens as the most popular remodeling project.

Earlier this year, NAHB released the survey results, which rank the most common remodeling projects from the previous year. While many of the top projects have remained consistently popular over the years, kitchens and bathrooms continue to jockey for the top spot.

"Small-scale renovations are slowly becoming just as popular as large-scale projects, as seen with bathroom remodeling becoming more common than kitchens," said 2018 NAHB Remodelers Chair Joanne Theunissen, CPG, CGR, a remodeler from Mt. Pleasant, Mich. "Home owners are finding cost-effective and shorter-timeframe upgrades not only add comfort to their homes, but they also add value."

Topping the List
Among the remodelers who participated in the survey regarding the projects they completed within the last year:

- 81% did bathroom remodeling
- 78% did kitchen remodeling
- 49% did whole house remodeling
- 37% did room additions
- 30% did window/door replacements

Rounding out the top 10 list of common remodeling jobs were: building decks, repairing property damage, finishing basements, performing general handyman services, and replacing or repairing roofs.

Going 'Green' is Key
While remodeling is commonly associated with kitchens and baths, demand for green upgrades continues to swell as home owners seek to save on utility costs, improve air quality and increase the value of their homes.

An additional survey by NAHB Remodelers showed that high-performing, low-emissivity (Low-E) windows are the most common green-building product installed by residential remodelers. Programmable thermostats and high-efficiency HVAC systems also ranked highly among the most common green products used.

Home remodeling projects continue to be a popular alternative for those who aren't yet ready to buy a new home, as well as for senior home owners who prefer to stay in their current home. For these consumers, there are a wide variety of modifications that came make their home safer and more comfortable.

SHORTAGE OF ROUGH CARPENTERS CLIMBS TO RECORD HIGH

By Paul Emrath

Labor and subcontractor shortages became even more widespread in July of 2018 than they were a year earlier, according to single-family builders who responded to special questions on the survey for the NAHB/Well Fargo Housing Market Index.

The July 2018 survey asked builders about shortages in 15 specific occupations that were either recommended by Home Builders Institute or other key stakeholders. Shortages of labor directly employed by builders were at least fairly widespread for each of the 15 occupations, ranging from a low of 47 percent for building maintenance managers to a high of 83 percent for rough carpenters.

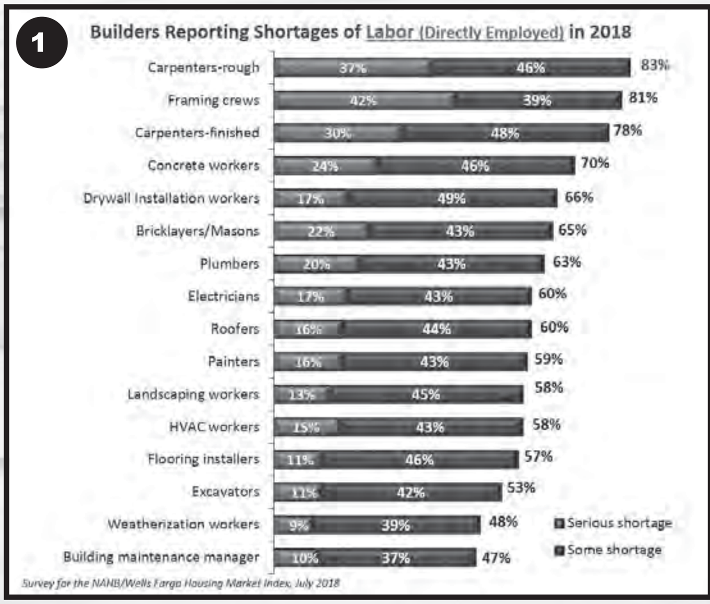
"As the impact of Hurricane Florence affects North and South Carolina — home to 9% of the nation's single-family construction — and other parts of the Mid-Atlantic, we can expect increased demand for construction workers and higher building material costs as the region recovers," Dietz noted. "As we saw last year in the wake of the storms that devastated portions of Texas and Florida, these impacts will lower production volume while increasing costs for a number of months in and around the affected regions." *(graph 1)*

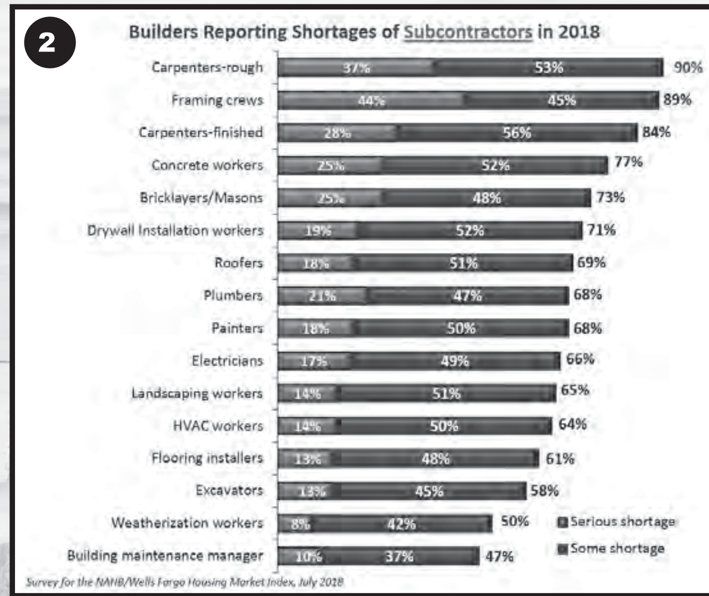
However, on the typical home building project, three-fourths of the construction cost represents work performed by subcontractors. For that reason, it is particularly significant that, in the 2018 survey, the incidence of shortages was higher for subcontractors than for labor directly employed by builders in 14 of the 15 occupations.

At the bottom of the charts, the shortage incidence was the same (47 percent) for building maintenance managers, whether subcontracted or directly employed by builders. For weatherization workers, the spread was 2 percentage points (50 percent for subcontractors vs. 48 percent for labor directly employed). For the other 13 occupations, the incidence of the shortage was 4 to 9 percentage points higher for subcontractors. *(graph 2)*

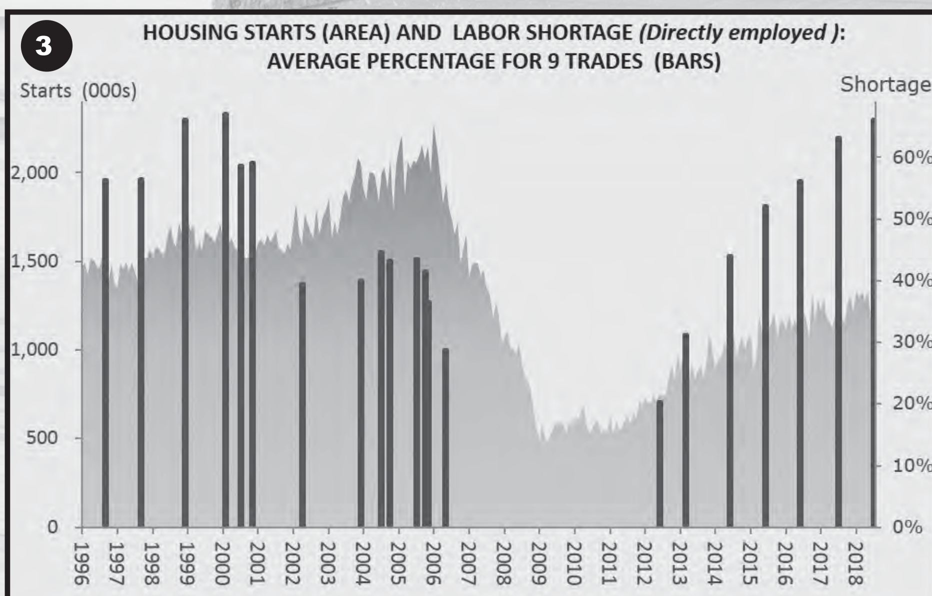
At the high end, 90 percent of builders reported a shortage of subcontractors to handle rough carpentry work in 2018—the first time any labor or subcontractor shortage has reached 90 percent in the history of NAHB's survey on the topic.

A possible explanation for the relatively severe shortage of subcontractors is that workers who were laid off and started their own trade contracting businesses during the housing downturn have returned to work for larger companies. That would add to the pool of workers available for builders to employ directly, while





subtracting from the number of owners running their own trade contracting businesses. The number of one-person trade contactors has actually declined slightly, even while the number of homes under construction was increasing by 131 percent.



NAHB has been collecting information from builders about labor shortages in a consistent way since the 1990s. An average shortage percentage for the 9 occupations that have appeared on every survey over that span can be calculated and tracked over time. *(graph 3)*

The 9-occupation shortage for labor has now skyrocketed from a low of 21 percent in 2012 to 56 percent in 2016, 63 percent in 2017, and now 67 percent in 2018. This is as high as the 9-occupation average has ever been. The shortages seem especially severe relative to housing starts, which still have not fully recovered from their historically low 2009-2011 trough.

The NAHB survey results are consistent with the latest numbers from the Job Opening and Labor Turnover Survey (JOLTS) conducted by the Bureau of Labor Statistics, showing that the number of unfilled jobs in the construction industry has reached a cyclical high.

Courtesy of NAHBNow.com

TOP 10 REASONS TO DO BUSINESS WITH AN ACTIVE ASSOCIATE MEMBER

1. They support the industry at the local, state and national levels.

2. They volunteer time, talent and treasure to help the association accomplish its goals.

3. They recruit their colleagues & business contacts to become members.

4. They serve on committees and councils gaining valuable networking opportunity while helping to advance the association's mission.

5. By doing so, you increase the value proposition for all membership in our HBA.

6. They are strong supporters of local and state PACs and BUILD-PAC.

7. They are a major source of non-dues revenue through sponsorships, advertising, etc.

8. As industry partners, they are a valuable resource for business and management tips.

9. They are heavily invested in your business success: You win, they win!

10. Why wouldn't you do business with a member?

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Tell us a little about your business and the services you offer:
Encore Homes by ParsCo specializes in building residential homes. We have a variety of custom floor-plans for the client to choose from or we can design and then build their dream house. We love the process of taking a homeowner's ideas and making their vision a reality. We build on our lot or theirs.

Why is it important for you to be a member of the HBA of West Florida?
Encore Homes prefers to source locally to keep the prices low and quality at its best. We believe in investing in our community. As a member of the HBA of West Florida, we have been able to identify and recruit the best subcontractors via the HBA of West Florida web portal and networking events. We know that members of HBA of West Florida are well qualified and provide superior supplies and services.

What are your personal interests?
I enjoy golfing, football, and have been known to enjoy hunting rattlesnakes for the fun of it. Also, I work as an adjunct professor in the UWF Building Construction program so I can help groom and prepare our next generation of builders. On the weekends you will find me at my farm doing various projects around our property. I also have one son and two daughters and make sure they are stocked with Legos. I enjoyed construction as a young child due to playing with Legos and I believe they are a useful but enjoyable way for a child to explore STEM concepts without them realizing it.

Other information you would like to add:
Encore Homes by ParsCo is building 26 new homes in downtown Pensacola. The community is named the Garden District Cottages. Log on to www.GardenDistrictCottages.com for additional information. Interested in being a team member? Log on to www.Pars-Co.net and fill out the subcontractor application or email us a resume if you are looking to join our team at info@pars-co.net.

Amir Fooladi
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P.O. Box 12862
Pensacola, FL 32501

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info@pars-co.net
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Meet the Builder 2018

Thank you to the participating builders, attendees and sponsors of Meet the Builder that was held at New World Landing. This high speed networking event gave associate members the opportunity to meet with key decision makers from home builders.

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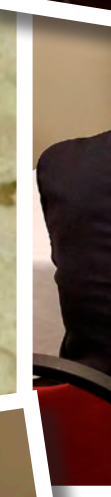

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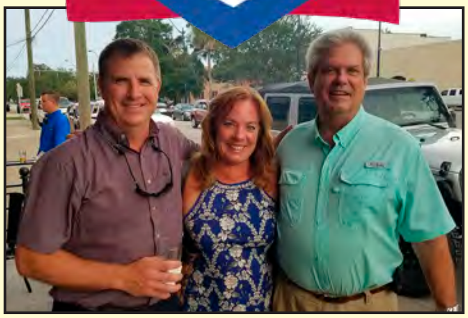
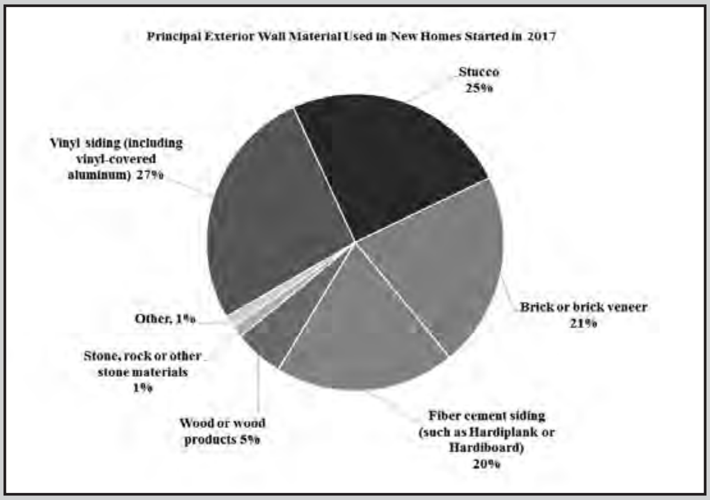
Special Thanks to Centennial Bank for hosting a great membership networking event at Perfect Plain Brewing Company. The event was fantastic with great Craft Beers & awesome food from the Egg Fest Crew.



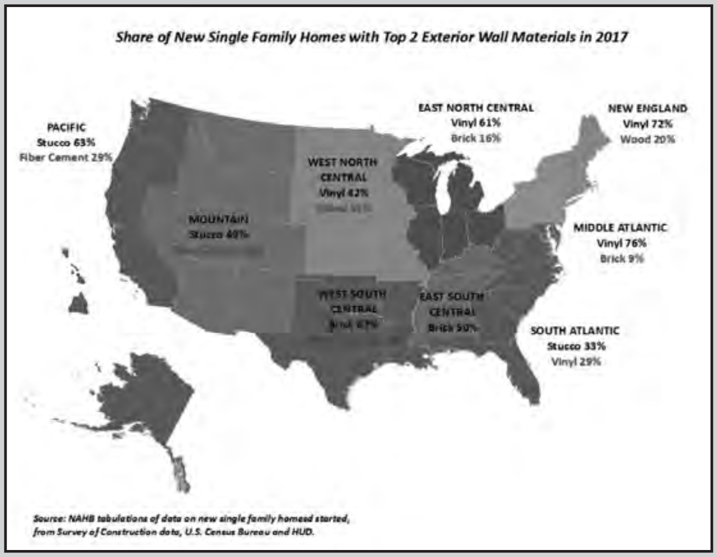
Vinyl and Stucco are the Most Common Siding On New Homes

By Ashok Chaluvadi

The most common exterior wall materials on homes started in 2017 were *vinyl* and *siding*. *Vinyl* siding was used on 27 percent of the new homes started in 2017, followed closely by *stucco* (25 percent), *brick or brick veneer* (21 percent), and *fiber cement siding (such as Hardiplank or Hardiboard)* (20 percent). Far smaller shares of single-family homes started last year had *wood or wood products* (5 percent) or *stone or rock* (1 percent) as the principal exterior wall material according to the data from the Census Bureau's Survey of Construction (SOC)



The Census Bureau's SOC data is available by the nine census divisions and there are substantial differences in the use of siding across divisions. *Vinyl* siding was the most widely used primary exterior material in 4 out of 9 census divisions. In the Middle Atlantic and New England, 76 percent and 72 percent of the new homes started in 2017 used *vinyl* siding. In the East and North West Central divisions, *vinyl* accounted for 61 and 42 percent respectively.



Stucco was the most common widely used as the primary exterior wall material in the Pacific, Mountain and South Atlantic divisions in 2017: 63 percent, 49 percent and 33 percent, respectively, of the new single family homes started in those areas used it. In the South Atlantic, *stucco* edged out *vinyl* by a narrow margin. *Brick or brick veneer* was the top choice in the East and West South Central divisions, where at least 50 percent of the new single family homes started last year used it as the primary exterior material.

Courtesy of NAHBNow.com

A Closer Look at the 20% Pass-Thru Deduction and Proposed Regulations

By David Logan

The Tax Cuts and Jobs Act (TCJA), signed into law in late 2017, created a new section of the tax code—199A. Section 199A provides a 20% deduction for "qualified business income" generated by pass-thru entities such as LLCs, partnerships, and S-corporations. The law went a long way to help small business owners compete, but left a bevy of unanswered questions.

Business owners and tax practitioners had been waiting eight months for the Internal Revenue Service to provide clarity. Their wait concluded in mid-August when the IRS published proposed regulations and a related Notice regarding 199A. Although some questions remain, the regulations provide significant clarity that the legislative language lacks. The following sections highlight some of the most important developments.

What to Account for When Determining Qualified Business Income

The 20% deduction is calculated using "qualified business income" (QBI). What exactly constitutes QBI, other than what is stated in the legislative text, has been open to question.

The regulations specify certain gains and losses that must be accounted for:[1]

- Sales and exchanges of interest in a partnership
- Guaranteed payments are included as deductions that decrease QBI[2]
- Adjustments made when changing accounting methods, as per section 481
- The TCJA greatly expanded the use of cash accounting for businesses with gross receipts less than $25 million, so more businesses than usual may change accounting methods in the next few years.
- "Disallowed" losses, such as passive losses, reduce QBI as long as the loss was disallowed in a year beginning after December 31st, 2017.
- Net operating losses (NOLs) are only taken into account if they had been previously disallowed.

The Treatment of Investment Income

A good rule of thumb to use when determining what to include in QBI is that any income already receiving preferential tax treatment (i.e. deduction or preferential rate) probably does not increase one's QBI and, by extension, their 199A deduction. The IRS' reasoning being that income already shielded from taxation at the highest applicable rate should not receive a second tax break.

Investment income generally falls within this bucket. In particular, capital gains and losses, any gain or loss treated as a capital gain/loss (such as that described in sec. 1231), dividends, and interest income are explicitly excluded from QBI.[3]

Compensation for Services

QBI also excludes wage income and equivalent compensation received from a business for services rendered. Thus, S-corps shareholders who receive "reasonable compensation" may not include those earnings when calculating QBI. Similarly, guaranteed payments received by a partner in a partnership do not count toward the individual's QBI. At the entity level, however, these payments must be deducted from the business's QBI before it is allocated to shareholders or partners.

Note that the type of payment, not the characteristics of the recipient, determines whether it is included in qualified business income. In other words, a partnership that is a partner in and receives guaranteed payments from another partnership, may not include those guaranteed payments in its QBI.[4]

The Definition of "Trade or Business" and Rental Income

The proposed regulations define "trade or business" using section 162 of the tax code.[5] Fortunately, the statute has existed for decades and thus has a great deal of case law associated with it. Even if rental activity does not meet the burden of sec. 162, however, the regulations state that rental of tangible property can be treated as a trade or business if the property is rented to a "commonly controlled" trade or businesses.[6 7]

Unfortunately, the use of sec. 162 may preclude other real estate activity from qualifying for 199A. One unanswered question stemming from the proposed regulations is whether income from a triple-net lease property would qualify. This is an area in which further guidance is necessary.

Deduction Disallowed for Income Derived from a "Specified Service Trade or Business"

One of the more contentious provisions of 199A is the language that denies certain businesses–specified service trades or businesses (SSTBs)–any 199A QBI if taxable income exceeds a certain threshold ($415,000 and $207,500 for married couples filing jointly and single filers, respectively).

The law states that QBI does not include income earned with respect to any trade or business activity involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, investing and investment management, trading, or dealing in securities, partnership interests, or commodities–all of which are SSTBs.

But the text also disqualifies income derived from "any trade or business where the principal asset of such trade or business is the reputation or skill of one or more of its employees or owners."[8] Industry leaders had been understandably concerned that this "catch all" would be interpreted to include home builders, remodelers, and specialty trade contractors.

Fortunately, the IRS narrowly interpreted the provision. The "reputation and skill" clause applies only to a trade or business

• In which a person receives fees, compensation, or other income for endorsing products or services;

• In which a person licenses or receives fees, compensation or other income for the use of an individual's image, likeness, name, signature, voice, trademark, or any other symbols associated with the individual's identity; and/or

• Receiving fees, compensation, or other income for appearing at an event or on radio, television, or another media format.[9]

Limitations on High-Income Earners

Although the TCJA included limitations to 199A based on a taxpayer's income, exactly how the provisions would apply was an qualified unknown until the recent release of IRS regulations.

For instance, after taxable income exceeds certain thresholds (assuming the income is not derived from a "specified" trade or business), the amount of the allowable deduction depends on W-2 wages paid by the business, a combination of wages paid and qualified depreciable property held by the business, and taxable income. Prior Eye on Housing posts have explained how to calculate the deduction if taxable income is within the phase-out range and if taxable income exceeds the top of that range.

Business owners using the W-2 wage-based method to calculate their possible deduction may not include reasonable compensation payments made by S-corps or guaranteed payments made by partnerships. However, if a business uses a payroll service, the business's owners may use their allocable share of W-2 wages paid to employees on its behalf by such a company when calculating their allowable deduction.

The Depreciable Property Test and Like-Kind Exchanges

Another 199A calculation method available to high-income taxpayers uses the "unadjusted basis" of depreciable property. This method allows owners of capital intensive firms paying little or no W-2 wages to get a 199A deduction based on their investment in physical capital.

In this case, the deduction is limited by 25 percent of W-2 wages paid plus 2.5 percent of the taxpayer's unadjusted basis in qualified property.

Unadjusted basis is generally equal to the original price paid for the property. A taxpayer using this method can calculate their 199A limitation using this unadjusted basis for 10 years or the depreciable life of the asset, whichever is longer. After this period, however, the taxpayer cannot use basis in that property when calculating their allowable deduction.

A common question over the last eight months has been how like-kind exchanges (LKEs) would affect unadjusted basis for these purposes. The proposed regulations answered with the following:

"[A] nonrecognition transaction, such as a…[like-kind] exchange, will reset the unadjusted basis of property to the current adjusted basis of the qualified property (accounting for depreciation taken to date) as of the new placed-in-service date."[10]

In other words, if property a taxpayer receives in a LKE has already been fully depreciated, the recipient has zero unadjusted basis in the property and thus may not use its value to increase his or her allowable 199A deduction. This provision was ostensibly included to prevent taxpayers from using LKEs for the sole purpose of increasing their allowable deduction.

[1] Proposed Regulation §1.199A-3(b)(1)

[2] Guaranteed payments do not count as QBI for the recipient.

[3] Interest income that is "properly allocable" to a business would be included in QBI.

[4] Proposed regulations §1.199A-3(b)(2)

[5] The only departure from sec. 162 is that the business of being an employee is excluded.

[6] Proposed regulations §1.199A-4(b)(1)(i)

[7] "Commonly controlled trades or businesses" are two or more businesses in which the same person or persons own at least 50 percent of each.

[8] I.R.C. §1202(e)(3)(A)

[9] Proposed Regulations §1.199A-5(b)(2)(xiv)

[10] Proposed Regulations §1.199A-2(c)(4)—example 3.

DISCLAIMER: This article is for informational purposes only. It should not be considered tax advice. Before making any tax decisions, work with a tax professional.

Courtesy of NAHBNow.com

House Republicans Introduce 'Tax Reform 2.0' Bills

House Republicans yesterday unveiled their long-anticipated package of tax changes intended to build on the enactment of last year's Tax Cuts and Jobs Act (TCJA).

Known as Tax Reform 2.0, it is actually a package of three bills. The House Ways and Means Committee is expected to take up the bills quickly, possibly later this week.

The Protecting Family and Small Business Tax Cuts of 2018 (H.R. 6760) would make permanent the provisions of the TCJA that are scheduled to expire on December 31, 2025. This includes making permanent:

• the new Section 199A 20% deduction for pass-through businesses

• the increased AMT exemption amount

• the new $750,000 cap on the mortgage interest deduction

• the $10,000 limit on the deduction of state and local taxes (SALT)

• the lower marginal tax rates of 10%, 12%, 22%, 24%, 32%, 35%, and 37%

• the increased standard deduction ($12,000 singles, $24,000 couples)

• the repeal of the overall limitation on itemized deduction (Pease limitation)

The Family Savings Act of 2018 (H.R. 6757) focuses on promoting individual and retirement savings. Notable changes included in this bill would give small businesses a more cost-effective means to offer employees retirement savings plans through the creation of Open Multiple Employer Plans, which is a change NAHB has supported.

Also, families that have Section 529 savings plans for higher education would be permitted to tap into those funds to cover costs associated with apprenticeships.

And the bill includes a new savings program known as Universal Savings Accounts (USAs), which would allow individuals to save up to $2,500 a year on a pre-tax basis. Distributions from a USA could be taken for any purpose, giving individuals a simple, tax-free savings vehicle, which could benefit younger home buyers saving for a downpayment.

The American Innovation Act of 2018 (H.R. 6756) would provide start-up businesses with new tax benefits. The bill would expand the Section 195 deduction for certain start-up costs and provide an exception to current rules that limit the use of net operating losses and certain tax credits when there is an ownership change and when a start-up business engages in additional rounds of financing.

At this point, the House leadership remains committed to a vote by the full House on all three bills this month. The Senate, however, has indicated that it will not considered these bills prior to the elections.

Of the three bills, the retirement savings changes have the best prospects for future enactment, as there has been strong bipartisan support in this area.

Courtesy of NAHBNow.com

A 10-Year Anniversary Highlights Need for Housing Finance Reform

With Fannie Mae and Freddie Mac now marking their tenth year of conservatorship, NAHB today called on Congress to make it a priority to enact comprehensive reform to the nation's housing finance system.

"To ensure a stable housing finance system that will support the future of homeownership and affordable multifamily housing in America, Congress must fix the structural flaws inherent in Fannie Mae's and Freddie Mac's government charters that contributed to the housing finance crisis," said NAHB Chairman Randy Noel, a custom home builder from LaPlace, La.

Today, House Financial Services Chairman Jeb Hensarling (R-Texas) and Rep. John Delaney (D-Md.) issued a draft of a housing finance reform bill that includes a federal government backstop to maintain stability in the market during times of economic turmoil.

NAHB believes a federal backstop is a critical element that must be incorporated into any overhaul of the housing finance system. NAHB is also urging Congress to enact further reforms that would:

• Preserve the successful multifamily housing finance framework;

• Continue the roles of the federal government housing agencies;

• Provide an equal playing field for small lenders;

• Restart a fully private mortgage-backed securities market; and

• Enhance the activities of state and regional sources of housing funding.

"Comprehensive legislation that incorporates these elements will ensure that housing credit remains readily available and affordable in the future, provide the foundation for a stable housing finance system and protect taxpayers," said Noel. "And as Congress deliberates, the administration needs to ensure that reforms put in place during conservatorship that have enabled Fannie Mae and Freddie Mac to better facilitate mortgage liquidity are not cast aside."

Courtesy of NAHBNow.com

New Members Approved by the Board

Clark Partington Attorneys at Law
Charles "Chuck" Young
125 East Intendencia St.
Pensacola, FL 32502
p 850-208-7026
f 850-432-7340
clarkpartington.com

Berney Office Solutions
Terry Paul
801 E. Cervantes St.
Pensacola, FL 32501
p 473-0018
berney.com

Pixel Window Cleaning Service
Carlos Walker
3912 Tonbridge Circle
Pensacola, FL 32514
p 850-776-1310
pixelwindowcleaningservice.com

ProClean Restoration & Cleaning
Dave DeBlander
3255 Potter St.
Pensacola, FL 32514
p 850-484-8500
procleanrestoration.com

If you do business with previous members, please give them a call and reinforce the value of membership as well as the importance of

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Forte Home Builders, Inc
Flynn Built - Flynn Building Specialist
Kyle Watson Homes, Inc.

SPIKE CLUB

In construction, a spike is a steel object that is essential to making a building strong. As in construction, the HBA of West Florida sees a Spike as someone that works to keep our association strong. Spikes work on the recruitment and retention of members in addition to keeping members active with the association. Anyone is eligible for Spike status. On Spike credit is awarded for each new member recruited and an additional credit is awarded for that new member's renewal on or before their anniversary date. If you help to retain a member, you are eligible to receive a half point for each member.

Spike Club Levels

Spike Candidate	1-5 credits
Blue Spike	6-24
Life Spike	25-49
Green Spike	50-99
Red Spike	100-149
Royal Spike	150-249
Super Spike	250-499
Statesman Spike	500-999
Grand Spike	1000-1499
All-Time Big Spike	1500+

Spike Club Members and their credits as of 07/31/2018.

Statesman Spike	**500 Credits**
Harold Logan	516.5

Super Spike	**250 Credits**
Rod Hurston	416.5
Jack McCombs	294

Royal Spike	**150 Credits**
Rick Sprague	202.5
Edwin Henry	198.5
Bob Boccanfuso	163
William "Billy" Moore	162.5

Red Spike	**100 Credits**
Charlie Rotenberry	148
Lee Magaha	129
Oliver Gore	111.5
Ron Tuttle	102

Green Spike	**50 Credits**
Ricky Wiggins	98.5
David Holcomb	91
Doug Sprague	86
Newman Rodgers IV	75.5
Kenneth Ellzey, Sr.	70
Bob Price, Jr.	57.5
Russ Parris	55
Thomas Westerheim	51.5

Life Spike	**25 Credits**
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West Calhoun	48.5
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Eddie Zarahn	41.5
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Doug Whitfield	32.5
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Blue Spike	**6 Credits**
Bill Daniel	24.5
Luke Shows	22.5
Keith Swilley	20.5
Steve Moorhead 19.5	
Brent Woody	18.5
Larry Hunter	15.5
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HOME BUILDERS ASSOCIATION OF WEST FLORIDA

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