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Tax Strategies Critical to Returns in Real Estate and Construction

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Today's challenging market conditions have had a direct impact on the real estate and construction industry. Market trends are changing as baby boomers retire and millennials continue to rent for longer than previous generations. The cost of land has skyrocketed and the economic growth outlook has become uncertain.

Greater tax complexity has also become the new normal, shifting how we view investments in real estate and construction. Companies operating in this industry are faced with the challenge of having to adopt new approaches to generate the desired rate of return.

Making the most of your investment includes planning for tax at every stage. Tax has become a significant strategic component that can influence how you evaluate an opportunity and how you structure your evolving investment.

The Tax Maze

Whether you build, own or operate real estate, various taxes come into play and have an impact on each project. Although tax should not drive business decisions, its function has a significant role in determining your return on investment (ROI). These taxes include:

- New capital gains taxes
- Taxes on profits from sale of constructed properties
- Goods and Services Tax (GST)/Harmonized Sales Tax (HST) and property taxes
- Additional taxes on foreign investments and vacant residential units

Specialized tax knowledge and experience can help you navigate the tax maze and improve your real estate and construction ROI.

Top 3 Tax Practices

To ensure your results are optimized, consider these three key steps to managing taxes:

Make Tax a Priority From the Start — Whether you have an in-house tax department, rely on external tax advisors, or employ a mix of both, include your tax advisors early on in your process. They understand your goals and can provide guidance in structuring your investments to mitigate risks and minimize taxes. It is always more efficient to consider tax as part of the overall plan, rather than at the final stages.

Employ the Right Set of Skills — Tax complexity has been a growing trend in Canada, along with rising tax burdens. Consider your needs from every angle — planning, structuring, obtaining financing, paying your taxes and reporting. Ensure the professionals you hire have the capability to work collaboratively as a team to achieve your goals.

Think of it in the same way you think of a construction project: various experts, such as engineers, architects, environmental experts and others, working together to build a final product. The right set of advisors take a holistic approach and customize your solution to add value to your bottom line.

Embed Tax into Your Strategic Plan — Whether you are planning the long-term growth of your business, your retirement, or an intergenerational transfer of your business or estate, tax is a critical component. The long-term value of your business or wealth can be significantly impacted by the tax planning you include in your overall strategic plan.

Transition Planning

Another issue private company or family business owners should consider is estate planning. You may assume the next generation will succeed you in operations; however, this may not be part of their long term plans. If multiple children are involved, how they work together can be addressed in advance and any potential conflicts can be avoided. Strategic planning in this area is critical and should be done well in advance from both a family harmony and tax perspective. Waiting until retirement or a potential sale is too late.

Transition of a business can also bring further tax complications that may significantly reduce the value of your business assets. A solid tax strategy can structure your organization and investments in a manner that will more efficiently achieve your succession goals. If, alternatively, you want to sell your business in the future or ensure it can give you an adequate payout, the right tax strategy can help you create a structure for your business and for specific investments that will work for you in the long term.

Conclusion

Tax planning can be a critical component in getting the returns for your business and achieving the goals you want. There is no one-size-fits-all tax solution and having the right set of advisors who help you plan from the start will help you optimize your opportunities.

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Make the Right Employee Ownership Program Choices

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With a constantly evolving landscape and a younger workforce that may be motivated in different ways than previous generations, exploring different employee incentive options is becoming key to achieve company goals. Employee share ownership programs (ESOPs) or employee profit sharing programs (EPSPs) increasingly are gaining popularity, for retaining or creating incentives for one or more employees, succession planning, or because it worked well for another company.

The right questions to ask, however, may be deeper ones about your goals that are not short-term but are intended for the next three years or longer. You need to be crystal clear on these goals before a plan for employee ownership or profit sharing can be created and executed successfully.

Begin with an End in Mind

Unsuccessful bonus or ownership plans often have no criteria attached to them. They aren't linked to the company's goals and expected outcomes and aren't entirely effective in moving the company forward.

The higher the level of uncertainty regarding desired outcomes, the less the incentive to do better. It is therefore critical to start with goals. Effectively, you have to decide where you want your team to help take your company before you reward them for their hard work.

Goals are varied and unique to your company and your situation. They can be related to company growth, as in a particular product line, division or geography, or can seek to improve areas of vulnerability such as dealing with increasing competition, employee retention or high cost of operations amongst others. You are looking for specific people to contribute to specific outcomes and goals.

A critical consideration while outlining goals is identifying the owner's or leadership's personal goals. Plans would be designed differently for owners or leaders looking to retire in three to five years, compared to those who will be operating the business longer term.

Once the objective is clearly articulated, the next step is to create the strategy to help you get to your desired outcome.

Build a Strategic Program

People often think an employee incentive program related to the company's success is based on an ownership stake in the company. But there is two forms of rewards to encourage ownership behaviour in employees.

One option allows employees to share in profits and the other enables them to share in ownership. Both work and can even be used together very effectively.

How you structure these rewards and which options you select — whether a distinct type or a combination of the two — are entirely dependent on your specific business situation and goals, and there is no one-size-fits-all program.

- Certain benefits apply to all types of programs, including:
- Creating an employee ownership mentality
- Boosting productivity
- Increasing alignment of personal and company goals
- Building a self-motivating company culture

Employee Profit Sharing Programs (EPSPs)

EPSPs, as the name suggests, are formalized profit-sharing programs in which employee incentives are linked to sharing profits and not ownership of the company. Various approaches are possible and some structures even allow for tax benefits.

The benefits of profit-sharing plans are that they can provide immediate rewards and help build motivation while simultaneously retaining key employees. They are also relatively easier to create and manage than ownership-sharing plans as there are less legal complexities and employee rights to manage.

Employee Share Ownership Programs (ESOPs)

ESOPs often incorporate the profit-sharing features of EPSPs and offer an ownership stake to employees. These range from small minority stakes to a gradual transfer of controlling ownership during the management buyout of a business.

The benefits of ESOPs are often longer-term retention of key people, especially if change in ownership is being phased in due to retirement or the owner’s exit from the business. They are a good succession mechanism and can also be a selection ground for future owners.

Share-ownership plans are typically more complex to set up than profit-sharing plans due to additional valuation and legal complexities.

Select The Right People

Once your goals are clearly outlined, it is a key time to identify and select the right people to help you get there through ownership or profit sharing.

It’s important to identify the people who are critical to achieving your objectives. The person, group of individuals or teams that you select should be the ones who will stay with the company, be part of your company’s end goal and fuel it. They should display the ability to truly believe in the objectives and be self-motivated to lead the company towards success, functioning as dynamos within the organization. The right people will make a large difference and drive growth and change.

It is worth mentioning the people you select should already be displaying ownership thinking capabilities, even before being offered the incentives. Then, when you add incentives to make key parts of the business self-motivated and pointed in the same direction, the collective effort is greater.

Often people are selected for ownership or profit sharing for reasons such as tenure or a sense more is owed to them. While these may be good reasons, they should not be the primary decision-making criteria. A forward-thinking and strategic mindset is critical while making decisions on employee ownership or profit sharing, so the program magnifies the company’s results.

Throughout the processes, two owner behaviours will drive your program’s success: engagement and education. Both the company and the employees benefit from consistent dialogue on the program. The company understands its employees’ motivations and employees understand the company’s desired outcomes and their role in achieving the outcomes. Combined, this mutual support will greatly enhance the success of your company and its people, and how they share in the results they are working for.

To wrap up, employee ownership programs meet more success when you clearly define your end goals and build a program that empowers your people. Once complete, see how they move your company forward in a significant way.

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Digital Solutions to Boost Your Cost Structure Performance

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The Canadian real estate and construction industry faces a complex business, tax and regulatory environment, challenging the returns they seek from their investments and assets under management. Managing costs strategically is a critical factor in supporting profits and where technology comes in to perform better in a competitive landscape.

Digital tools, including enterprise resource planning (ERP) and corporate performance management (CPM) solutions, use cloud services and automation to help you look further and deeper and play a critical part in helping you understand your costs and the drivers of value.

The cost structure of a company is the total costs a company incurs, which includes standard operating costs typically found on financial statements, plus the less obvious opportunity costs of capital invested. Real estate companies often incur these costs while operating the business and while choosing one investment over another opportunity.

And while a booming or growing market makes real estate companies focus on costs as investments, in a more difficult environment the focus shifts to the bottom line and profitability.

A Fine Balance

Focusing solely on profitability can be a double-edged sword. To protect the bottom line, internal operating costs often are cut or investments are delayed, which in turn has a negative effect on achieving longer-term goals. This is a temporary solution that can be avoided by prior strategic planning, so you are prepared and can meet your company's goals in the long term.

Digital solutions integrated into your business' operations provide a depth of information to help you make the right decisions, so you have an effective and balanced growth and profitability strategy. While each company has its own unique cost structure, a robust cost structure and financial model allows your business to deal in a timely way with a changing environment and minimizes risks related to cash flow and financial performance.

Paying for a technological solution may seem like an added expense when you're looking to reduce operating costs. But with the right technology and integrated solutions for your business, you can recover or justify the expense and gain far more value from it than the legacy tools and processes currently being used.

To ensure your business not only survives but can also get the returns you seek, you need to generate value from every aspect of your business. Some ways in which digital tools can help your cost structure are explored below.

Use Time and Talent More Effectively

Digital finance solutions free up valuable time by helping you move away from many manual and time-consuming tasks such as spreadsheets, invoicing, payments and gathering data. Solutions such as robotic process automation (RPA), which essentially comprises sophisticated and automated business processes and functions, can be significant value generators, especially when integrating various systems.

When the solution is selected carefully for your business, it can be scaled for future growth and provide the right level of automation, so you can focus your time and talent on making better, insight-driven decisions. You get the opportunity of time, so you can think deeper about your data and cost models and focus on improving performance and efficiency.

Lower Operating Costs

Digital finance solutions provide the data you need to make more insightful decisions in real time. Being able to access tending and seasonality data is critical in helping you understand your costs faster and more deeply.

Your operating costs, whether direct or indirect, become easier to obtain and analyze with automation and digital solutions. The deeper level of data you get, coupled with the time freed up from manual tasks, can help you clearly start identifying areas in which costs are unnecessary, too high or replicated. You can then focus on operational efficiencies as well as redundancies, ultimately improving your bottom line.

Streamlining your operating costs also prepares you for when times get tough and your improved cost structure will be critical - and keep you from making cuts that actually hamper your business in the long term.

Another way automation lowers your costs is by providing a solution for more than one area of your business. This can help you find efficiencies, bringing down your cost of investing in the solution. These digital solutions also end up reducing the need for you to outsource work, since some tasks you didn't have the capacity for earlier can be moved back inhouse and handled electronically, while simultaneously reducing errors and enhancing security.

Make Better Investments

The right digital finance tools help you attain faster and greater data transparency and can help better understand the value of each investment: data outlining the returns you are generating, offset by the cost of investing and operating the investment, make the true value of that investment clearer to you. At the same time, data can help you identify what may be a better investment and generate the performance you are seeking.

With the appropriate digital financial tool, you can make more strategic decisions on redeploying your assets, as well as restructuring investments so your capital can give you better outcomes. Combined with the opportunities for reducing your operating costs, digital solutions can help you take advantage of more freed-up capital, which is then put to better use for your business.

Reduce Costs, Improve Performance

The right tools help you work smarter and spend smarter too, so you can cut costs strategically and apply the savings to focus on better performance. Ultimately, businesses that use digital finance solutions not only restructure and improve their costs, but also end up improving other areas of their business such as systems, business models, operations and talent and gain better competitive advantage.

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