



Owning the Change: The AEC Financial Professional's Blueprint for a Successful 2026

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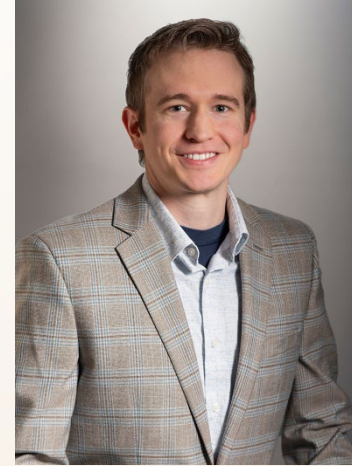


Introductions



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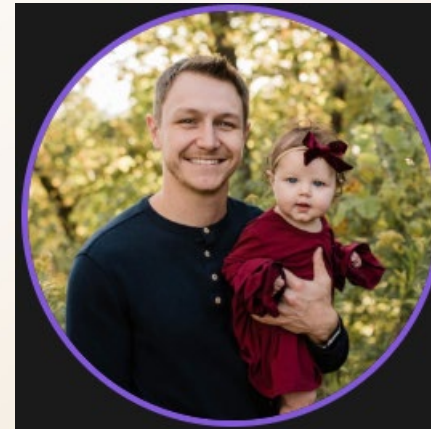


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Firm Overview

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“Owning the Change”

What’s Changing in 2026?

YES

- Interest Rates
- Labor Pool/Skills Shortage
- Inflation/Tariffs
- Tax Laws
- Technology/AI
- Penn State’s Coach

NO

- Major accounting pronouncements

Webinar Objectives

- **Develop a proactive approach to cash flow, overhead rates, and employee retention in a fluid environment**
- **Update on tax planning strategies in response to the “OBBBA”**
- **Explore Potential Use Cases for AI within AEC Accounting and Reporting**

Disclaimer for Interest Rate Forecasting



I am not an economics professor, but I *do* love playing one on webinars!

Cash Flow Planning: Interest Rates

Key Rates: Then and Now

	<u>11/17/2025</u>	<u>11/17/2024</u>	<u>Decrease</u>
Federal Reserve Target Rate	4.00%	4.75%	-0.75%
Prime	7.00%	7.75%	-0.75%
1-Month SOFR	4.10%	4.76%	-0.66%
15 Year Mortgage	5.49%	5.99%	-0.50%
30 Year Mortgage	6.24%	6.78%	-0.54%

Source: Federal Reserve Bank of St Louis

General Expectation: Additional **.50% - .75%** in rate cuts from November 2025 to November 2026

Cash Flow Planning: Interest Rates

If interest rates will meaningfully decline over the next year, what does that mean in the interim?

For Saving / Investing

- Are there any opportunities to “lock in” higher rates?
- Are we putting our “overbillings” to good use?

For Borrowing

- Can certain capital outlays be strategically deferred?
- Do we have any refinancing opportunities?

Cash Flow Planning: Guidelines for *ALL* Seasons

- Develop a reliable, dynamic 12-month cash flow forecast
- Benchmark and track your cash conversion cycle
- Consider a “laddering” investment strategy to optimally deploy overbillings and cash reserves
- Safeguard cash balances through an intrafi network arrangement
- Periodic accounting/finance training for Project Managers

Employee Retention: Deferred Compensation Plans

- Increasingly leveraged strategy for winning the “talent war”
- Mid-term and long-term payouts provide key employees with an incentive to stay beyond the next raise or bonus
- Accounting impact can vary vastly in its breadth, timing, and significance

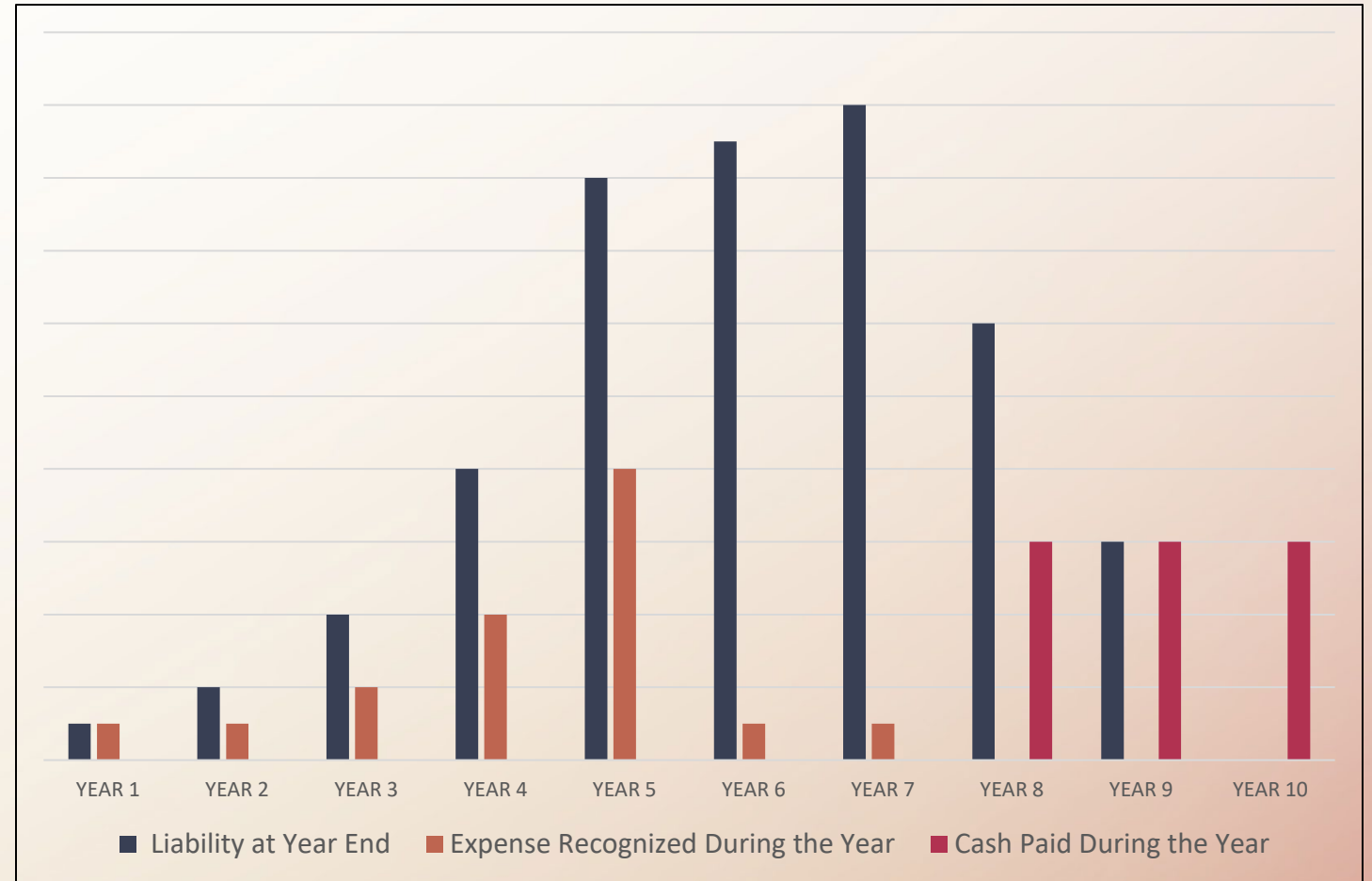
Deferred Compensation Plans: Accounting Impact

- Company incurs expenses over the service period, as the participant earns the benefit defined in the agreement
- Liabilities associated with future payouts build over the service period
- Key Takeaway: Many plans will generate liabilities and expenses for the company long before the cash payments begin
- Assess and model out the full financial impact: Cash Flows, Balance Sheet, and Income Statement

Deferred Comp Plans: FS Impact

Illustration

- Phase 1 (YEARS 1-5): Liability grows as participants earn the benefits over the service period.
- Phase 2 (YEARS 6-7): Benefits are fully earned. Liability continues to grow due to increases in present values as the payment dates approach.
- Phase 3 (YEARS 8-10): Liability is reduced as benefits are distributed over the period specified by the plan document.



Deferred Compensation Plans: Initial Steps

- **Understand the Key Drivers of financial impact:**
 - **Benefit formula inputs specified in the agreement**
 - **Timing of the Future Payouts**
 - **Service Period Tied to the Future Payouts**
- **Make sure Finance and HR are aligned by considering:**
 - **What is the appropriate time horizon to reward?**
 - **What will be the funding mechanism for future payouts?**
 - **Which future activities should we incentivize?**

FAR: Minimizing Disallowances

- Assemble comprehensive documentation (timesheets, payroll, cost schedules) to prepare for audits and defend questionable costs.
- Scrutinize high-risk accounts and consult recent AASHTO Audit Guide updates for new allowable items. For example, compensation, bonuses, marketing, meals.
- Proactively identify and resolve unallowable costs to maximize the defended overhead rate.

FAR: Optimizing Chart of Accounts Design

- Ensure your chart of accounts enables quick separation of direct and indirect costs for consistent rate calculation.
- Update codes to specifically capture all allowable overhead expenses, such as training, administrative time, and business development.
- Regularly review account mapping to minimize misclassification and missed opportunities.

FAR: Executive Compensation Survey

- Firms can use either paid executive compensation surveys or the free AASHTO National Compensation Matrix (NCM) tool.
- Paid surveys may offer more granular locality, industry, or firm size breakdowns, but require careful alignment of job titles and roles, and are sometimes open to more auditor scrutiny or challenge.
- The AASHTO NCM provides a streamlined, widely accepted method: input the firm's gross revenue to generate allowable compensation limits by position for key executives, based on standardized national data.

FAR: Marketing vs. Bid/Proposal Costs

- Many firms overlook including allowable marketing, bid, and proposal labor costs in the overhead pool.
- Educate staff to accurately code time for these activities, as direct sales marketing is typically disallowed, but bid and proposal time can be included.
- Implement time-tracking policies with clear coding for eligible activities.

FAR: Tools for Meals, Receipts, Approval and Documentation

- Automatic receipt scanning, matching, and secure storage for each transaction.
- **Configurable approval workflows and policy enforcement for meals/entertainment.**
- **Mobile access for instant upload of receipts, memos, attendee details, and explanations as required by FAR.**
- Complete integration with accounting software for fast reconciliation and direct documentation extraction during audits.
- **Examples include Expensify, SAP Concur, Ramp, Airbase, Brex, Zoho Expense and Fyle.**



Tax Updates



H.R.1 - OBBBA

- **IRC Section 174 – R&D Expense Capitalization and Amortization**
 - Effective in 2025 – Domestic costs – including prior unamortized costs – fully deductible
 - Foreign costs remain amortized over 15 years
- **IRC Section 163(j) – Limitation on Business Interest**
 - Interest expense limited to 30% of adjusted taxable income
 - Permanently includes addback of depreciation and amortization (EBITDA) to adjusted taxable income

H.R.1 - OBBBA

- **Bonus Depreciation – 100% Bonus depreciation made permanent for property placed in service after January 19, 2025**
- **Sec. 179 Depreciation – Maximum deduction increased to \$2,500,000 and phase out increased to \$4,000,000**

H.R.1 - OBBBA

- **Credits**
 - **WOTC – Work Opportunity Tax Credit – New hires through Dec. 31, 2025**
 - **Energy Credits – effectively repealed between now and 2027**
- **Sec. 179D – Accelerated Deduction for Energy Efficient Property**
 - **Terminated for new construction beginning after June 30, 2026**
- **Small Residential Contractor Relief**
 - **Certain Residential contractors may opt out of the Percentage of Completion method for tax reporting**

H.R.1 - OBBBA

- **1099 Filing Threshold**
 - Currently - \$600 for payments made in the course of a trade or business
 - Threshold increased to \$2,000 and indexed for inflation – for tax years beginning in 2026
- **Income Tax Exemption on Overtime Pay**
 - New for 2026
 - Deduction of up to \$12,500 (\$25,000 MFJ)
 - In effect for 2025-2028
 - ONLY on increased rate (i.e., the “half” in “time and a half”)
 - Employer reporting – W2



Exploring AI Use Cases with Tellen





Questions?

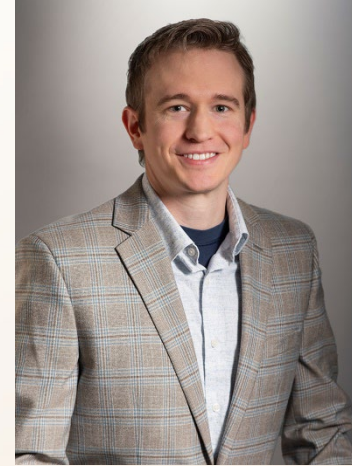


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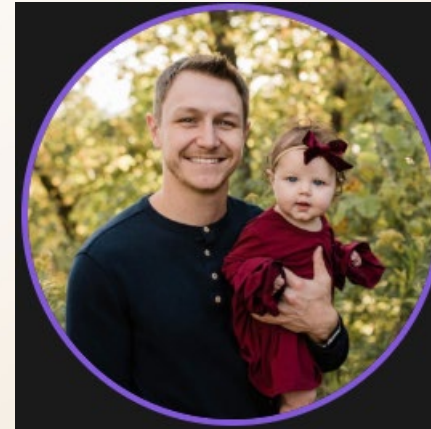


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Upcoming Events



December 11 Webinar



2025 Federal Tax Reform Update

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