NEPONSET RIVER
WEALTH STRATEGIES

A WHITE PAPER FOR CONSTRUCTION BUSINESS OWNERS

The Contractor's Blueprint

*What your company is worth, why profitable contractors run out of money, and how to keep more of what you build — **federal and Massachusetts.***

~800	5–8× EBITDA	9%
specialty trade contractors acquired by private equity since 2022 — and the letters keep coming	where lower-middle-market specialty trades commonly transact (adjusted)	Massachusetts marginal rate on income above the surtax line — including the year you sell

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You Can Quote Your Margin to the Decimal. Now Quote Your Effective Tax Rate.

You know your numbers on a job. You know what concrete costs this month, what a good foreman costs this year, and what happens to your margin when a job runs three weeks long.

Ask the same owner what their effective tax rate was last year: federal, state, self-employment, all in — and the room gets quiet. For a profitable contractor in the $2–10 million range, the combined tax bill is very often **the single largest line item after labor and materials.** It's also the only major cost on your P&L that responds to planning rather than negotiation. You can't talk the lumber yard down forever. You can, legally and durably, change what you keep.

And taxes are only one wall of the building. Walk any jobsite and you can point to the load-bearing elements in seconds. Now try the same exercise on your own finances: **what is the one element that, if it failed tomorrow, brings down everything else?**

For nearly every construction owner in this range, the honest answer is you. The business is usually **70–90% of the family's net worth.** It's illiquid. Its debts and bonds are personally guaranteed — often with a spouse's signature — so the company's risks already live inside the house. And its profits depend on a person who spends real time on jobsites in the industry with significant risks.

That's not fear-mongering; it's underwriting. This paper covers the whole structure: what your company is worth, the five tax levers most contractors never pull, the cash-and-bonding math that quietly sets your growth ceiling, the exit taxes nobody warns Massachusetts sellers about, and the four walls that keep one bad day from becoming a family-finance failure.

> *You'd never build without redundancy in the structure. Most owners run their entire financial life on a single unbraced column.*

349K	30%	$2M
additional construction workers the industry needs in 2026 — an intact crew is now a priced asset	of Massachusetts residential construction workers are 55 or older — above the national average	Massachusetts estate tax threshold — a successful contractor's family blows through it on the business alone

What a Construction Company Is Worth — and Why It Varies So Much

Specialty trade contractors in the $3–10 million revenue band commonly transact around **5 to 8× adjusted EBITDA.** Very small shops trade lower, at **2.5 to 4× seller's discretionary earnings.** The PE platforms buying them have recapitalized in the high teens.

That spread is the whole lesson: **buyers aren't paying for revenue — they're paying for how transferable and repeatable the profit is.** The buyers' math depends on acquiring companies your size at modest multiples and rolling them into platforms valued at much higher ones. That arbitrage is why the letters keep coming and why the first number they float is rarely their best, and rarely the number that survives diligence.

BUSINESS TYPE	WHAT DRIVES (AND LIMITS) THE MULTIPLE
Trades with service / maintenance revenue	**Recurring contracts, technician count, and a customer base that travels well — this is where the strongest multiples live**
Project-based specialty subs	**Solid but lower; backlog and GC relationships must survive the owner's exit**
General contractors	**Often lower multiples: thin margins, project risk, bonding continuity, relationships concentrated in the owner**
Home builders	**Frequently valued closer to assets — land, lots, and backlog — plus a modest premium; the brand rarely transfers like a service book does**

Across every category, the same value drivers repeat: **management that runs the work without you** (buyers won't pay a premium for a company that's secretly a job with your name on it); **clean, accrual-basis financials with a credible WIP history** — expect a quality-of-earnings review to claw back 10–20% of a headline price if the books wobble; **customer diversification** — one GC or developer over a fifth of revenue is a discount lever. And, newly and powerfully: **your workforce.** With the industry short roughly 349,000 workers this year, a stable, tenured licensed crew may be the single most defensible thing you own.

> *Buyers don't pay for what the company earned last year. They pay for their confidence it earns the same without you in it.*

Five Tax Levers Most Contractors Never Pull

1. The entity question

S corporation owners split their take between W-2 salary and distributions — and every dollar properly shifted from wages to distributions saves roughly 2.9–3.8% in Medicare taxes, year after year. Your salary decision, entity choice, and the now-permanent **20% QBI deduction** are one conversation, not three. Many contractors leave five figures on the table annually because those decisions were made separately, years apart, by different advisors.

2. Equipment: the deduction you already bought

For 2026, **Section 179** lets you expense up to **$2.56 million** of equipment, and **100% bonus depreciation is back — permanently.** The strategy is timing, not spending: land planned purchases in your highest-income years. But know the flip side — every dollar of accelerated depreciation is **recapture waiting at the sale,** taxed as ordinary income. For an equipment-heavy contractor, that number can reshape the tax bill on an exit.

3. The accounting method election almost nobody reviews

If your average gross receipts are under roughly $31 million, you likely qualify for the small-contractor exception — including the **completed contract method,** which defers tax on a job's profit until the job closes. Picture $600,000 of recognized-but-uncollected profit straddling year-end: tax due now, or when the jobs finish? Your surety needs percentage-of-completion statements. The IRS, at your size, does not.

4. Retirement plans as a tax tool

A 401(k) plus profit sharing can put **$72,000+** a year into an owner's account. For owners past 45 with steady profits, a **cash balance plan** stacked on top routinely supports deductible contributions of **$150,000–$300,000 per year.** It's the one deduction that doesn't cost you the money — it moves it from a taxable pocket to a tax-deferred pocket you still own.

5. The Massachusetts layer

The Commonwealth's **4% surtax** hits taxable income above **$1,107,750 (2026)** — on top of the standard 5%. For a contractor this isn't a tax on the merely wealthy; it's **a tax on lumpy income:** one big closeout, an equipment sale, or the sale of the business itself can blow through the line. Income smoothing is a genuine Massachusetts strategy and a six-figure retirement plan contribution is the pressure valve that pulls a spike year back under the threshold.

WORKED EXAMPLE: MA ELECTRICAL CONTRACTOR, S CORP, $6M REVENUE, OWNER AGE 54

MOVE	APPROXIMATE ANNUAL EFFECT
Reasonable-comp reset ($400K → defensible $275K)	**≈ $4,500/yr in Medicare taxes saved**
QBI preserved via wage / entity coordination	**Five-figure federal deduction, recurring**
$220K equipment purchase timed into the high-income year	**≈ $80K+ combined tax deferred**
401(k) + cash balance plan, owner age 54	**≈ $200K/yr deductible; income pulled below MA surtax threshold**

No single line is dramatic. Stacked, moves like these routinely change an owner's all-in tax picture by six figures over a few years — every one a boring, well-settled part of the code.

Cash Is the Job

Every construction owner has lived it: the backlog is the best it's ever been, the P&L says you're making money — and on Thursday night you're moving money between accounts to cover Friday payroll, because the profit is real but it's parked in receivables, retainage, and a change order somebody's architect has been sitting on for six weeks.

> *Revenue is vanity, profit is opinion, cash is fact — and in construction, cash is also the speed limit.*

Massachusetts law is on your side — if you use it

On private projects with a prime contract of $3M+, retainage is **capped at 5%** — any contract term that takes more is void. The statute also builds a clock: notice of substantial completion within 14 days, retainage invoiced within 60 days and paid within 30. The Prompt Payment Act adds hard deadlines for progress payments and change orders — a rejection must be written, timely, and explained, **or the application is deemed approved.** These rules only help the contractors who send the notices and invoice on schedule.

The balance sheet is your sales ceiling

For any contractor who bonds work, the balance sheet isn't a report card — **it's a permission slip.** Aggregate bonding capacity often runs some multiple — commonly cited at 10–20× — of analyzed working capital. Every dollar stripped out of the company is several dollars of work you may not be allowed to bid.

THE DECISION	WHAT THE SURETY SEES
Large owner distributions in a strong year	**Equity down; capacity down**
Writing equipment to zero for tax	**Equity understated — unless book and tax are properly separated**
Buying equipment on the line of credit	**Working capital impaired — the number they weight most**
Clean CPA statements, tidy WIP, steady equity	**Larger program, better terms, faster approvals**

Notice the tension: the tax playbook says accelerate deductions; the bonding playbook says protect book equity. **Both are right** — the fix is proper GAAP statements for the surety with separate elections for tax. This is exactly the cross-wiring that happens when the CPA, bonding agent, and banker never sit in the same conversation.

> ### The ninety-day cash tune-up
> Check your three biggest contracts against statutory payment terms • build the closeout calendar • assign every receivable over 45 days to a named person • move equipment off the line of credit onto term financing • ask your bonding agent: “What, specifically, is capping my program today?” — and write the answer down.

When the Letter Arrives

It usually starts politely. An email from a "business development associate," or a call about how impressed they are by your reputation. They represent a buyer — and they'd love fifteen minutes.

How the deal is actually built

The headline number is not the deal. A typical lower-middle-market structure runs roughly **50–70% cash at close**, **10–15% in an earnout** tied to post-sale performance, and **15–30% "rolled"** into the buyer's platform equity. An earnout measured on EBITDA you no longer control is a hope, not a payment. The rollover can be the best part of the deal — the "second bite" — or dead money, depending entirely on the platform's health. And nearly every deal asks you to stay two or three years. If your goal is the beach, say so before the letter of intent.

> *Many companies that go to market don't sell. The preparation window is two to five years — and none of the failures are preventable in the ninety days before closing.*

The taxes nobody warns Massachusetts sellers about

Recapture. Most buyers want an asset purchase — and all those years of Section 179 wrote your equipment to zero. The slice of the price allocated to equipment comes back as **ordinary income,** not capital gain. Add non-competes and consulting agreements (also ordinary income), and the blended rate on a construction exit routinely lands far above what the owner penciled in. Even in an installment sale, recapture generally lands in year one.

The surtax. A business sale is exactly the one-time event the 4% surtax captures: gain above the line is taxed at **9% by the Commonwealth** on top of federal rates. On a $5 million gain, the surtax alone approaches **$160,000.** The levers — installment structures, timing across tax years, charitable and trust strategies — must be pulled years, not months, ahead.

The paths that don't involve a letter

A sale to key employees or family over five to ten years nets a lower headline but keeps the name, crew, and community intact — and the installment structure can be dramatically friendlier under the surtax, because gain arrives in slices below the threshold. **Whichever path: build the company a buyer would want, then decide whether you feel like selling it.**

The Four Walls Around Everything You've Built

Wall 1. The people the business can't lose

Key-person risk in construction is a name, not a department: the estimator whose gut prices work nobody else can price, the PM who owns 40% of revenue, the licensed master — and you. The response is half insurance (key-person life and disability on the two or three irreplaceable names) and half retention: documented processes, a real retirement plan, and deferred-comp or phantom-equity for the truly critical one or two. When a buyer diligences your company, they will price exactly this.

Wall 2. Who owns the company on the worst day

The buy-sell agreement is the most commonly broken instrument in closely held construction: there isn't one, the valuation is a decade and $4 million stale, or it was never funded. And recent law matters — the Supreme Court's 2024 Connelly decision quietly broke the math of thousands of company-owned-policy agreements. **If yours predates 2024 and the company owns the policies, it needs a review now.** The Massachusetts estate tax bites harder than owners expect: estates over $2 million — unindexed — with a notorious cliff.

Wall 3. The paycheck behind the paychecks

Every contractor carries workers' comp on the crew. Ask who carries meaningful long-term disability on the owner and the hands drop. Yet the owner's disability doesn't just stop a paycheck — it can stall the company, trip loan covenants, and freeze the bonding program while the family's largest asset loses value by the month. Look for **own-occupation coverage,** a benefit sized to real family spending plus company obligations, and a disability buyout provision wired into the buy-sell.

Wall 4. Wealth outside the perimeter

Why put $100,000 in a brokerage account when the same dollars buy a machine that can provide real returns to your business? Because you already own the machine, the trucks, the receivables, and the personal guarantees behind all of it. The fix is boring and mechanical: **a fixed percentage of every distribution leaves the company's orbit permanently** — retirement plans first, then taxable investments — until the family could hold its standard of living for several years on outside assets alone. Liquidity isn't just safety; it's negotiating position. The owner with three years of runway is the one who can walk away from a bad buyer, wait out a bad market, and say no to a bad job.

> *These pieces get built by different professionals who rarely compare drawings. Tax, cash, exit, and protection are one structure — inspected together, on a schedule.*

The Owner's Site Inspection

You'd never let work leave the yard without an inspection. Run the same walkthrough on your own finances. **One point for every box you can honestly check:**

- ❑ I know, within a defensible range, what my company is worth today — not a broker's teaser number.
- ❑ My entity structure, salary, and QBI deduction were reviewed together in the last three years.
- ❑ My tax accounting method was an actual decision, not an accident of how the return has always been prepared.
- ❑ I know what's capping my bonding program today — because I asked, and wrote it down.
- ❑ No equipment is sitting on my line of credit; every receivable over 45 days has a named owner.
- ❑ I'm using retirement plans to move six figures a year out of the company's orbit — or I know why not.
- ❑ My buy-sell agreement is funded, reflects current value, and has been reviewed since the 2024 Connelly decision.
- ❑ I carry own-occupation disability coverage sized to my real obligations — not just an association group policy.
- ❑ I've mapped what an asset-sale allocation — including recapture and the Massachusetts surtax — would do to my after-tax number.
- ❑ If a serious offer arrived next month, I'd know how to evaluate it — and who to call.

8–10 · Built to Code
The conversation now is optimization — timing, plan design, and exit readiness.

4–7 · Punch List
Typical — and fixable. A focused year of planning usually moves owners in this range dramatically.

0–3 · Stop Work
You've built something valuable with no protection around it. The most expensive thing you can do from here is wait.

Whatever you scored — bring it to the call.
The complimentary review on the next page starts exactly here: we walk your inspection results together and identify the two or three items worth fixing first. Most owners are surprised how quickly the score moves.

WHERE TO GO FROM HERE

Your CPA Sees One Wall. Your Bonding Agent Sees Another. Someone Has to See the Whole Structure.

None of what's in this paper is exotic. Most of it has been sitting in plain sight for years. The reason it goes unused isn't complexity, it's that nobody in a contractor's orbit is paid to connect the pieces. Your CPA files the returns. Your bonding agent watches the balance sheet. Your attorney drafts the contracts.

That's the work I do with construction owners: a review that connects the business's finances to yours — **entity, taxes, cash flow, protection, and the eventual exit** — coordinated with your CPA and attorney rather than replacing them.

THE WHOLE-STRUCTURE REVIEW

A complimentary, no-obligation conversation — typically 15 minutes. You'll leave with at least one specific thing you can act on, **whether or not we ever work together.** No pitch. My door is open.

CALL 508-492-3316

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BOOK Schedule your review →

Selected sources

PitchBook / WSJ analysis of PE acquisitions in the trades since 2022 • GF Data, NAICS 238 TEV/EBITDA averages • Exit Planning Institute owner-readiness research • Associated Builders and Contractors 2026 workforce analysis • Mass.gov labor availability data • M.G.L. c. 149 §§29E–29F (retainage & prompt payment) • M.G.L. c. 62 §§4(d), 5A (4% surtax); M.G.L. c. 65C (estate tax) • Connelly v. United States, 602 U.S. 257 (2024) • One Big Beautiful Bill Act (2025); Rev. Proc. 2025-32; IRS Notice 2025-67.