United States
Opportunities and barriers to inbound construction

G20 rankings & data

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<th>G20 heatmap rankings</th>
<th>Construction industry value</th>
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<td>Construction industry, real growth</td>
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<td>Announced spend on construction in next 3 years</td>
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<th>Country financial health</th>
<th>Budget balance</th>
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<td>Overall announced fiscal stimulus</td>
<td>1</td>
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<td>GDP/Head</td>
<td>2</td>
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<td>Credit ratings rank</td>
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<th>Doing business overall rank</th>
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<td>Dealing with construction permits rank</td>
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<td>Business transparency rank</td>
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<th>Tax regime</th>
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<th>18=</th>
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<td>World bank – paying taxes rank</td>
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Financial metrics

- Total fiscal stimulus announced: £573bn
- Announced spend on construction in the next 3 years including fiscal stimulus to construction: £150bn
- Construction industry value – 2009: £440bn
- Main corporate tax rate: 35%

Construction sector metrics

<table>
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<tr>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
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<tbody>
<tr>
<td>Construction industry value, £bn</td>
<td>383</td>
<td>419</td>
<td>440</td>
<td>459</td>
<td>483</td>
<td>512</td>
</tr>
<tr>
<td>Construction industry, real growth, per cent y-o-y</td>
<td>-12.1</td>
<td>-1.9</td>
<td>2.4</td>
<td>2.5</td>
<td>3.5</td>
<td>3.8</td>
</tr>
<tr>
<td>Construction industry, per cent of GDP</td>
<td>4.1</td>
<td>4.0</td>
<td>4.1</td>
<td>4.0</td>
<td>4.0</td>
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BDO review of tax

- One of the highest national tax rates with substantial tax rates in certain states
- Complex and stringent thin capitalisation restrictions
- Building costs depreciated over a relatively long period
- Some significant tax incentives are available at the local level in specific locations

Overall scoring: 3/10
18= out of the G20

BDO ease of doing business

There are some significant barriers for inbound construction activity, however it is possible to get round these.

1 Very easy
2 Quite easy
3 Average
4 Quite difficult
5 Very difficult

Top construction firms

- Bechtel
- Fluor Corp.
- The Turner Corp.
- KBR, Houston
- Kiewit Corp.

1 Extremely dominant
2 Dominant
3 Quite dominant
4 Not very dominant
5 Not at all dominant

The industry is fragmented. There are a large number of big players and a huge number of small specialty players. The huge number of smaller specialty players may create a barrier.
“The United States is, on balance, the most attractive destination for inbound construction activity in the G20. Massive spend on public works over the short term backed by President Obama’s administration outweighs the challenges in doing business there.”

Richard Kelly
Partner, Head of Construction

“The surprisingly low tax ranking is driven by both the high corporate tax rate and the notorious complexity of the US tax system. This should be seen as the price of entry to this enormous market.”

Stephen Herring
Tax Partner, Real Estate and Construction

Opportunities and barriers

Ranked 1st overall in our G20 heatmap, despite some challenging conditions for inbound construction activity, the scale of the opportunity in the country pushes the US to first place in the G20.

The US construction sector has been the world’s largest for a long time, with spending set at £373.36bn in 2003 (out of £2.9tn) spent by the world’s fifty-five largest nations.

According to US Census data and Moody’s Economy.com, the value of US construction put-in-place from 2004 to 2007 totalled nearly £87.7bn on an annualised basis. However, the robust three-year growth in this sector that began in 2003 is softening.

It is estimated that the US construction sector contracted by 1.9 per cent in real terms in 2008, largely due to the downturn in the country’s commercial and residential real estate markets. However, the worsening of the overall economic climate brings some positive implications for the US’s infrastructure sector.

On February 19 President Barack Obama’s £573bn economic stimulus package was passed by the US Congress. The bill will see substantial new spending on infrastructure projects in 2009 and 2010. It is forecasted that real construction sector activity as a whole will expand by 2.4 per cent in 2009, followed by a 2.5 per cent expansion in 2010. This growth will be driven largely by government capital spending as part of the stimulus package. After 2010, government capital investment should begin falling back, as the private sector recovers.

The US stimulus package proposes to spend around £109.5bn on infrastructure, including roads, bridges and mass transit systems. This investment will be the largest amount spent on public infrastructure since President Eisenhower developed the US highway system in the 1950’s.

President Barack Obama laid out his vision for a massive shift in US federal Government spending and taxation priorities, unveiling a budget that projects a staggering £1.27tn deficit this year and redirects billions of dollars towards health care, clean energy and education programs.

Some of the core investments (roads, bridges, railways, other transportation) include:
- £20bn for highway and bridge construction projects
- £5.8bn for intercity passenger rail projects and rail congestion grants, with priority for high-speed rail, £5.03bn for new equipment for public transportation projects (Federal Transit Administration), £4.9bn for Amtrak, £7.2bn to help public transit agencies, £5.48bn for the construction of new public rail transportation systems and other fixed guideway systems and £5.48bn for the maintenance of existing public transportation systems.

To date PPPs have not been widely used in the US. Some toll roads have been privatized under concession-style PPPs, however there has been controversy over these schemes.

Some companies are hoping that PPPs will be used for at least part of the large infrastructure spending programme announced by President Obama, however it remains unclear whether this will happen.

Reasons the United States is attractive for inbound construction activity
- Size of announced fiscal stimulus by the new administration.
- Size of announced spend on infrastructure in the next 3 years as the US invests heavily in a crumbling infrastructure.
- Strong credit rating, ease of doing business and low corruption.

Barriers/challenges to construction activity
- Bonding, cost of labour, workers’ compensation matters, union matters.
- Complex tax structures and laws (Fed and State).
- For Government contracts – Significant ‘Qualifications’ required and stiff competition exists which has significant know how with respect to dealing with these entities.
- US Banking sector has suffered as a result of the sub prime crisis.

BDO viewpoint and advice

Pitfalls to avoid when doing business in the United States
- Not to appropriately identify and vet all Federal and state tax considerations.
- Not clearly understanding unionized labour considerations or workers compensation considerations.
- Not clearly understanding contracting conventions as the General Contractor; both with respect to the project owner and all subcontractors utilized.
- Not appropriately underwriting/vetting/performing vendor due diligence on all subcontractors utilised.
- Having inadequate insurance, including appropriate types and amounts.
- Not fully assessing the strength and flexibility of the competition.

Practical advice for inbound construction activity
- For non-US investors, entry into the US construction market is primarily achieved through the acquisition of existing US firms. For operational and regulatory reasons, and except for certain management and advisory services that can be supplied cross-border, foreign construction firms must establish or purchase US entities, hire US subcontractors, or be represented by US joint venture partners in order to operate in the US market. US contractors operate in a similar fashion in foreign markets.
- Appropriate advice must be taken about the differences in Federal and state tax considerations.

Useful tax and other incentives for inbound construction activity
Main depreciation rates:
- Buildings – commercial property is generally depreciated on a straight line basis over 39 years.
- Tangible moveable property – depreciation is available over periods from between 3 and 20 years, depending upon tables published by the IRS.

Other incentives:
- State and local property tax holidays and reductions apply, for example, to specified ‘enterprise zones’ for new business/job creation during the development/construction phase.
- Direct tax incentives include a Federal domestic production deduction up to 6 per cent of qualifying costs and energy efficiency credits and rebates and the Federal and state level.