



Market Segment Specialization Program



Masonry and Concrete Industry

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Masonry and Concrete Industry

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Chapter 1

INDUSTRY PRACTICES

PURPOSE OF THE GUIDE

This Market Segment Specialization Program (MSSP) Guide contains industry specific data related to the Masonry and Concrete industries. It is intended as a guide for examiners when auditing entities related to this market segment or a general contractor who may have contracts that include masonry substructures. Before initiating their initial masonry or concrete market segment audit, it is recommended that the examiner have a thorough knowledge of the material contained in this guide and the Construction Industry MSSP Guide. In addition, periodic meetings with your local masonry trade association and the reading of publications and periodicals related to the industry which are available in local libraries will significantly improve the basic knowledge, skills, and abilities of those auditing returns within this market segment.

The trades covered in this guide include the traditional brick layers as well as concrete block masons, concrete forming, placing and finishing, placing of masonry architectural details, and miscellaneous masonry details. This work does not include the off-site manufacture of concrete components such as pre-stressed bridge beams since this work is more like a typical manufacturing operation than on-site construction.

BACKGROUND OF THE INDUSTRY

In 1993, the masonry, stonework, tile setting, concrete and plastering market segment trades in the construction industry filed 161,765 Individual Form 1040 income tax returns and 3,547 Form 1065 Partnership returns. These returns represented about 8 percent of the total construction industry filings, a rate similar to plumbing, painting, and electrical trade contractor filings.

(Source: IRS Statistics of Income 1993.) The number of Form 1120 Corporate returns is unknown since incorporated speciality trade businesses, with minor exceptions, are required to utilize PIA Codes 1798 "Other Special Trade Contractors" for filing purposes, which consolidates all miscellaneous trades.

Trends in the industry, as reported by The U.S. Department of Commerce, indicate that, based on shipments and imports of Portland cement, production and imports had double digit growth in the middle 1980s, but that rate declined to approximately 2 percent in the 1990s. A noticeable current trend is the increase in imports from Canada, Mexico, and the Orient that can be attributed to several factors. First, there

has been a decline in costs of water transportation and reduction of tariff barriers with the North American Free Trade Agreement (NAFTA). Secondly, many U.S. plants have been idled due to efficiency and pollution concerns. Finally, the price of cement in the United States has generally been higher than the rest of the world thus making imports more attractive. Many U.S. firms who produce cement are looking for and have found foreign partners in the basic industry. What this means to the tax collecting industry is that construction is likely to see only modest growth in the near term, but the returns filed will have more issues relating to foreign investment.

The masonry business, like many other construction trades, has changed significantly in the last half of the twentieth century. Large multi-storied office or apartment buildings are seldom brick faced but now utilize glass and steel for exterior surfaces. Bridges, except for the very large, are generally a mixture of on-site formed vertical members of concrete and off-site manufactured horizontal beams. Parking decks have become a significant segment of the construction industry and utilize in-place forming of concrete over steel core members. Shopping centers small and large are now usually constructed of steel framing with covered walls of concrete blocks and brick faces. Interior walls are often made of concrete blocks, parking lots are concrete surfaced, and concrete curbs and walk ways are abundant. Occasionally, concrete paving companies will use asphalt as the primary material. Asphalt material design, material handling, and placement for roads and parking lots is similar to concrete.

In construction of residential buildings, a "brick home" is a thing of the past and the use of brick veneer over wooden framing is the norm. Likewise, brick foundations are seldom encountered. Concrete slab foundations with embedded utilities are the rule especially in the south and western United States, while half or full concrete basements are the usual in the northern part of the country. Poured concrete perimeter footings with piers is another alternative to slab construction.

Increased labor cost in the 20th century has resulted in contractors reducing the skill level needed and the time necessary to complete projects. This means that, wherever possible, components are manufactured off-site and on-site work is standardized and divided so that lower skills are required.

Immigrant labor is often employed and unionized labor has been on the decline for many years. These influences have changed the organization of companies that engage in the construction business so that now parent corporations form subsidiaries specifically to perform government and public work where organized labor and other governmental mandates are in place. Other subsidiaries utilize non-union or subcontract labor to minimize overhead expenses such as workmen's compensation and mid-level management expenditures.

It is not unusual for a general contractor for example, who is constructing an apartment complex, that is not publicly financed nor requires organized labor, to have only a skeleton staff of employees at the job site who oversee the general performance of subcontractors. The current workers tend to be less versatile with a limited range of skills, that is, a bricklayer in new home construction will seldom transition to commercial buildings. Concrete finishers rarely, if ever, lay brick. With the advent of prefabricated metal fireplace systems, the building of brick chimneys is almost a lost art except for the upscale homes.

In summary, the construction industry and the masonry segment remain strong influences on the U.S. economy. Yet, in the last decade of the twentieth century growth in the masonry segment is expected to be small and possibly flat. This is not to say that the industry is insignificant since large economic forces in relative and absolute terms are in operation. There are no estimates of the employment for the masonry industry as a whole, but in the domestic production of Portland cement alone in 1993 there were 17,000 employees earning an average of \$15.10 per hour.

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Chapter 2

INDUSTRY PRACTICES

BACKGROUND

Before discussing specific practices within the Masonry and Concrete industry, it is necessary first to define the type of filer and entities being discussed, including the size of their operation, etc. For example, an industry practice for a corporation with a sole shareholder will be different than that for a corporation with wide ownership and good internal control.

SOLE PROPRIETORS

A sole proprietor speciality contractor is typically owned by a former skilled tradesman who understands the dynamics of making a profit using the labor of others. They develop the marketing ability to sell a masonry service to the public or general contractors and then organize and direct a workforce to fulfill a contract at the agreed price or lower. Generally, when initially entering business they have little time for or interest in the accounting or tax aspects of the business but have a keen sense of what it takes to turn a profit and understand cash flow concepts. However, over time they develop a good understanding of tax matters and recognize the ability they have to engage in tax planning. They are generally participants in a network, formal or informal, where they learn of bidding opportunities as well as other hard information and hot rumors. Normally they are cash basis taxpayers although they may not have a clear understanding of what this means. Many choose a tax preparer on the basis of a long, satisfactory relationship or use a network to identify an accountant. Often a proprietor will have great loyalty to his or her preparer and will travel considerable distances, if needed, to maintain the relationship. Meeting the competition may involve fierce efforts to stay "on top" but there may also be concurrent cooperation in areas of information exchange, employee referrals and interaction with local building regulatory authorities. Sole proprietor speciality trade businesses typically have little outside financing except for equipment purchases. They try to match receipts for each job with the payment for labor and materials and, on large contracts, a weekly payment is common if this can be tied to progress. In dealing with consumers, the collection rule is payment on completion or by percentage of completion. Except for a general business license many states do not require "trade licenses" for companies engaged in masonry work unless there is plumbing, HVAC, electrical, or engineering work required. Usually, sole proprietor contractors maintain business bank accounts that serve as the basis of their accounting system. Due to limited internal controls, smaller operators may fail to deposit all receipts or may pay expenses directly with funds not previously deposited.

CLOSELY HELD CORPORATIONS AND PARTNERSHIPS

Generally, closely held corporations and partnerships have adequate internal controls to ensure the organization has an effective accounting system. At a minimum, employees have orally received instruction on procedures to follow when billing clients, handling receipts and dealings with customers. Typically, they use accrual accounting or a hybrid system that is acceptable for tax purposes. They communicate with customers by various ways but foremost is the printing of disclaimers and credit terms on the invoices that often include penalties for late payment. They borrow money if necessary to take advantage of supplier payment discounts which are common in the construction industry. The owner usually must approve any bids and otherwise keeps tight control over sales and customer relationships. Bids are increasingly prepared by computers as well as the job scheduling, materials, and labor control. Budgets have become more common in small corporations and can be an excellent audit tool. Company accounting tends to be performed in-house while their tax work is usually conducted by independent CPAs. Unless required by a lender or some other outside influence, certified audits have generally not been performed. Corporate owners frequently must personally guarantee loan debts of the company. Performance bonding is a frequent requirement for contractors in the masonry business and they seek to develop stable, long term relationships with their surety company. Often contractors must certify, in various ways, that their suppliers are paid in order to be paid. Most states have mechanic's lien laws that allow unpaid suppliers and laborers to cloud the title of real property. A practice prevalent in the industry is the making of joint checks to the contractor and his or her supplier to ensure supplier payment. Companies handle joint checks differently which creates a challenge for an auditor and it is often time consuming to determine if all income has been booked properly. Taxpayers occasionally argue that not booking joint checks is permissible because no income or expense is recognized.

PUBLICLY TRADED CORPORATIONS

These corporations are often audited as part of the Coordinated Examination Program and are characterized by very sophisticated accounting and cost control procedures. They will have certified audits and filings with the Securities and Exchange Commission as well as state commissions. Many of these companies have foreign contracts and investments. Typically, such corporations file consolidated returns with subsidiaries that obtain construction contracts and others that are in related or unrelated fields. The petroleum service companies are examples of corporations that have contracts for refinery construction, exploration and development as well as chemical production. The issues encountered with these taxpayers tend to be in the areas of accounting methods and organizational changes.

Chapter 3

DESCRIPTION OF THE INDUSTRY

BACKGROUND

The masonry industry in the United States encompasses a wide range of businesses that may conveniently be categorized in three stages: Concrete & Cement Production, Concrete Preparation and Placement, and Brick and Block Placement.

CONCRETE AND CEMENT PRODUCTION

The Cement and Concrete Production (C&CP) stage includes all of the processes from mining of the raw materials, transportation, processing/mixing ingredients, to pouring, or to use a more modern term, "placing." Generally, C&CP is a manufacturing process that is carried out by large, vertically integrated corporations that tend to be organized to market their products in a state or regional area. Availability of raw materials has a big influence on the operations of these companies. For example, in parts of the southeastern United States, where quarried stone is readily available for crushing, there would probably be a shortage of sand and natural stone. However, sand could be manufactured by crushing quarried stone to the gradation required. Sometimes slag, a by-product of the iron industry, is substituted for natural gravel or crushed stone. In the southwest and western part of the United States shifting river beds over geological time have produced deposits that contain sand as well stone of various sizes. Where this resource is available, very little manufacturing is required. The mixture is simply excavated from pits and graded for size. Since the raw materials for concrete as well as concrete itself is very heavy, producers try to locate as near to the market as possible. Typically, the cost of raw materials in concrete is about 60-70 percent cement and 30-40 percent aggregates and water. Labor and equipment cost is also significant, averaging approximately 25 percent of the total concrete cost.

The size of concrete producers varies widely, but there has been a tendency in the United States for smaller companies to be purchased by larger ones especially in large urban areas with exceptional growth potential. The world's largest concrete company is headquartered in Australia and has operations in Hong Kong, United Kingdom, Israel, New Zealand, and Africa. Some companies produce cement, as well concrete shapes such as pipe and ready mixed concrete, for sale to the general market.

Cement production is generally centralized around the sources of raw materials that are mined. Other considerations are energy sources and pollution regulations and

control. Since cement is produced by grinding and heating calcine rock and clay, energy costs are significant. The final cement product is transported to concrete production/distribution facilities by hopper railroad cars and trucks. Cement is produced in five types each yielding different properties. General purpose cement or Type I, is the most common. The generic name "Portland" is normally applied to the material which is referred to as Portland Cement.

Concrete, produced from cement, is usually mixed and created at small plants scattered around large metropolitan areas in close proximity to the markets. A concrete company may have as many as 10 plants strategically located to serve a market. Some plants are designed to be easily portable and most plants could be moved, if necessary. Often concrete plants reach the end of their useful lives about the time market demands subside. Generally, managers of the local plants are employees of the regional companies and responsible for all phases of concrete production as well as sales. Many of these managers are civil engineers who have a good understanding of their product. These managers must be concerned with proper scheduling of the facility, employees, maintenance, sales and material availability. Local plants will have a stock of various aggregates in outdoor areas and silos containing cement. Central to the plant is machinery that automatically blends the desired components from gravity feed bins into waiting mixer trucks. The trucks may be permanently assigned to a plant, but depending on market conditions may be reassigned as needed. The trucks may be driven by employees or owner-drivers working under contract. For large projects such as bridges, highways, or airports the general contractors may have one or more portable plants located at the job site. Operations that manufacture and produce concrete pipes, blocks, products of various shapes etc., where concrete production, molding and/or an extrusion process is involved, are usually permanently sited and may have significant inventories.

Transit mix trucks are central to concrete placement industry. These trucks typically are manufactured in two components, the chassis and the mixer. The chassis with slight variations could be used to pull semi-trailers, or mount an unlimited variety of equipment such as wreckers, fire trucks, straight trucks and etc. The manufacturers are typically Mack, International, Crain Carrier Corp., Ford, Autocar, and others. The mixers are often manufactured by regional companies and represent about one-third the total cost. The normal capacity is nine or more cubic yards but the larger capacities often require auxiliary wheel systems to stay within the highway weight limits. (These vehicles are subject to the Federal Highway Use Tax). Where owner/drivers are involved, they usually operate on a rate per zone in a given city. The total price for these trucks are in the \$100,000 price range and can be expected to have a useful life of about 5 years.

CONCRETE PREPARATION AND PLACEMENT

Concrete preparation and placement includes the forming for various structures, construction of the reinforcement grids and the placing and finishing of the concrete. More specifically, it includes the process of producing the proper forms, site preparation, filling the forms with concrete of the correct specification, allowing time for necessary curing, removal of forms, and surface finishing. The above process applies to projects as simple as construction of a walkway 6 inches thick containing only reinforcing wire to a project as complex as the construction of piers for a bridge that requires extensive engineering and site preparation. Pre-fabricated reinforced concrete shapes such as bridge beams that are produced in a factory setting are not addressed in this guide since it is considered a manufacturing rather than construction process.

Concrete forms used in the construction industry tend to be custom built and discarded after use, but the high labor cost has produced a trend toward standardized and reusable forms. This trend is more advanced in highway and bridge construction. To a limited degree, some companies have found a market niche in renting plywood, fiberglass, or metal forms. Many companies in the concrete placing business tend to specialize. Some specialize exclusively in preparing and placing concrete for foundations in single family dwellings in which case specifications seldom vary except for the outside dimensions. Others must use carefully engineered plans to construct forms with structural steel and other features such as "fasteners in place" before placing the concrete. In the latter type of concrete work, careful supervision may be provided by the customer as well as governmental and regulatory authorities. Concrete placing and finishing is labor intensive especially where the shapes, size, or distances are unique. However, some kinds of concrete placement use a surprising amount of sophisticated equipment for high speed production. Highway construction is an example of this where long sections of highway concrete are placed and finished very accurately by wheel mounted machines that use the form as a track and are able to produce roadways 12 feet wide at the rate of about 50 yards per hour. These machines are fed by a convoy of mixer trucks and occasionally use special placement equipment or concrete pumps. Usually the forms used for highway jobs are reusable and are moved forward as soon as the concrete is partially cured.

Sometimes concrete is sprayed on a form to produce a vessel of some type such as a swimming pool. This process is called pneumatic mortar or guniting. Another kind of concrete construction found frequently is tilt wall construction, where concrete wall sections are formed in simple forms at the job site and raised to the vertical position to form walls that may or may not be load bearing. Many commercial buildings and "sky scrapers" are faced with concrete panels with embedded fasteners. The panels are hoisted with cranes to the desired position and bolted to the building's structure. Crucial to all concrete handling and placing are precautions to ensure that the concrete

components are not allowed to separate before setting.

Concrete pumps are used in a construction setting when the designated area needing concrete cannot be accessed by a ready mix concrete truck. Special equipment such as a pumper trucks may be used, for example, where the ground circling a residential foundation form is inaccessible to mixer trucks due to soft ground, etc. or where the cement must be placed behind other structures such as a backyard patio. Pumpers are also used for parking lots and multi-story commercial buildings. However, there is limitation on lift distance of approximately 120 feet in height depending on the type of "mud" (concrete) being pumped. Cranes and buckets must be used for sky scrapers of extreme height. A concrete pumper is a piece of equipment that is usually pulled behind another vehicle. Hoses of various sizes can be attached to it depending on the job being performed and the type of "mud" being pumped.

Dimensioned Products: Dimensioned products include all types of masonry shapes that are installed with mortar or in some cases "dry fitting." In this category, bricks and concrete blocks are the most familiar followed by stone and other shaped architectural details. Finally, pipes and items such as septic tanks and sewer components are produced in large numbers. This list could be much longer but these are the most popular. During World War II, some experiments were done in producing ship hulls from concrete with some degree of success which exemplifies the versatility of concrete.

Brick Manufacturing: In many respects brick manufacture is similar to the manufacture of cement. The raw materials are mined and then mixed with additives, shaped, and then fired to produce a weather resistant product. When selecting a factory site, brick manufacturers try to balance the requirements of raw materials, market demands, and the availability of cheap natural gas. Suitable clays are strip mined and ground with additives such as chemicals or other properties to provide different colors. In a continuous process, the prepared clay is extruded to the desired cross section then cut to thickness and given coatings if desired for color or hardness. The bricks are then fired in a kiln at high temperatures for several hours to achieve the desired chemical changes that produce a waterproof product. Shipment to customers often takes place on trucks with on-board material handling equipment to permit the driver to unload at a job site without assistance.

Concrete Block Manufacturing: The manufacturing process for concrete blocks is similar to bricks except no kilns are involved and the raw materials are cement and special aggregates. Often a reinforcement is given to concrete blocks by the addition of glass fibers to the mixture. Dimensioned stone is quarried from a rock face by drilling and blasting then moving the product to a plant where gang saws cut the material to the desired shape.

Artificial Stone Manufacturing: Artificial stone that looks authentic is manufactured using concrete as the raw material. Upscale residences and commercial buildings often have brick or stone facings with lintels, post caps, corner stones, keystones, arches, etc., made from natural stone or concrete replicas.

BRICK AND BLOCK PLACEMENT

Brick and block placement is the process of using mortar to place bricks, concrete blocks, stone blocks, or other natural or concrete architectural shapes. The term "bricklaying" often covers a wide range of work that basically involves the placing of shapes with the joints filled with mortar. Usually this construction is the final step of building construction and often involves a high degree of skill especially on the commercial jobs. Less skilled workers generally do residential jobs since the walls tend to be lower and shorter and any architectural details are pre-fabricated or made of wood and installed by carpenters. Companies engaged in this type work are usually not extremely large and are characterized by a transient work force. In areas/jobs that are unionized, companies usually recruit workers from hiring halls for a specific job and then disband. Rarely will a large general contractor maintain workers for this purpose. Workers learn the trade by a progression of jobs from material handler, to apprentice, to master, based on their individual skill level. Several national trade associations and many union locals offer apprenticeship programs.

As bricklayers' skill level progress, so does their ability to create unique and more sophisticated patterns. The least complex English bond is where most start and which many masons do not progress beyond. Highly skilled masons follow specifications to produce an almost infinite number of patterns. One of the most challenging jobs of an engineer, architect, and mason alike is where a new building requires replicating the details and appearance of a building nearby that was built many years ago when labor was inexpensive and ornamentation was highly desirable.

Machinery used in bricklaying tends to be low tech but it is common to find powered mortar mixers, lifting devices, and motorized wheel barrows. Great labor savers, where the scale of the job is suitable, are scaffolds that the masons can raise or lower while standing on the platform, as opposed to the labor intensive system of bucks and scaffold boards. For residential jobs, mortar is generally mixed on site, but for large jobs concrete mixing plants and mixer trucks are used to produce mortar. Being a labor intensive task, brick, block, and stone masons use trowels of various sizes and shapes, pointing tools, levels, plumb bobs, cords, and specially designed folding rulers.

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Chapter 4

INDUSTRY ISSUES AND AUDIT TECHNIQUES

BACKGROUND

There are a number of issues, while not entirely unique to masonry, that seem to appear more than average in the Masonry and Concrete industry and warrant an alert to examiners. In addition, there are several Code sections that have wide ramifications in the industry. If the examiner has only a superficial understanding of these sections, many major issues could be overlooked. Therefore, examiners are encouraged to become conversant with the provisions of IRC sections 168, 263, 263A, 451 and 460.

DEDUCTIONS CLAIMED FOR FINES AND PENALTIES

Since the manufacture, handling, and application of masonry products is a dirty and dangerous activity, the industry is subject to various fines from federal, state and local authorities. There is a natural desire to deduct these fines. Generally, masonry businesses are subject to regulatory oversight by the EPA, OSHA, FTC and a host of state regulators. These rules and regulations create the potential for significant fines which are normally not deductible for federal tax purposes. See IRC section 162(f).

COST RECOVERY

Construction companies, and especially, ready mix concrete companies sometimes have many units of depreciable equipment housed at different locations and moving on a daily basis. One company has about 500 mixer trucks registered and also leases mixers from owner drivers. Cost recovery deductions under IRC section 168, therefore, can be substantial. Abandonment losses and the sale of business assets (section 1231) are other issues often identified during examination of masonry contractors.

SELF INSURANCE

Larger corporate filers that are self insured for employee medical insurance, worker's compensation, and/or casualty loss expenses usually accrue these expenses for financial accounting purposes. However, the Internal Revenue Code generally does not allow these deductions for tax purposes. Therefore, adjustments are sometimes required in this area.

EMPLOYMENT TAX ISSUES

The following is a brief outline of the law regarding employment status and employment tax relief. It is important to note that either worker classification -- independent contractor or employee -- can be a valid and appropriate business choice. For an in-depth discussion, see the training materials on determining employment status. "Independent Contractor or Employee?" Training 3320-102 (Rev. 10-96), TPDS No. 84236I. The training materials are also available from the IRS Home Page (<http://www.irs.ustreas.gov>).

The first step in any case involving worker classification is to consider section 530 of the Revenue Act of 1978. Before or at the beginning of any audit inquiry relating to employment status, an examiner must provide the taxpayer with a written notice of the provisions of Section 530. If the requirements of Section 530 are met, a business may be entitled to relief from federal employment tax obligations. Section 530 terminates the employment tax liability (and any interest and penalties attributable to the liability) of the business, not the worker.

In general, the common law rules are applied in determining the employer-employee relationship. IRC section 3121(d)(2). *Nationwide Mutual Insurance Co. v. Darden*, 503 U.S. 318 (1992).

Guides for determining a worker's employment status are found in three substantially similar sections of the Employment Tax Regulations, namely: section 31.3121(d)-1; section 31.3306(i)-1; and section 31.3401(c)-1. These three sections relate, respectively, to the Federal Insurance Contributions Act (FICA), the Federal Unemployment Tax Act (FUTA), and federal income tax withholding.

The regulations provide that the employer's right to control the manner in which the work is performed is the most important factor in analyzing employment status for tax purposes. The examiner will need to weigh the facts and circumstances of each case and determine worker status accordingly.

The training materials mentioned above provide more information on the method of analysis used in determining employment status. The training materials explain the kinds of facts to be considered, including: facts evidencing behavioral control; facts evidencing financial control; and facts evidencing relationship of the parties.

Ready mixed concrete producers have been identified as using a number of unique approaches to hire, train, and convert employees to the status of independent contractor. Some companies hire experienced drivers to operate their mixer trucks while others train inexperienced drivers. In both cases, after a period as an employee, those workers who show initiative and ability are often encouraged to buy their own

truck chassis, less the mixer. The new owner-driver leases a mixer unit from the company for installation on their personally owned truck chassis enabling him or her to haul concrete. The lease generally provides for the company to receive a nominal lease fee for the mixer and the owner-driver to receive nominal income for painting his or her truck in the company color scheme.

Another common practice in the industry is for smaller contractors to subcontract part or all of their work to a third party individual who, in turn hires, supervises and compensates workers for work performed. The third or middle person in this arrangement is, in reality, a foreman-agent (F/A) of the contractor. The F/A files a Schedule "C," reporting only minor expenses except for labor which he or she treats as "independent contractors."

Should the examiner encounter the F/A issue, he or she should be aware that the usual common law factors apply but in these cases special scrutiny should be given to the relationship between the foreman and the prime contractor since the whole purpose is to make it appear as if the contractor is isolated from the process. Occasionally the contractor will "slip up" and pay workers directly and thus weaken his or her position. Often the prime contractor does not speak the worker's language and is forced to have an agent as a conduit for control. There seems to be little case law at present that is "on point." These cases may also come under the provisions of the Classification Settlement Program that is currently being implemented in many districts.

Required filing checks are especially important to construction industry examinations since there are so many employment tax issues. If payers are required to identify payees properly and file accurate information returns, the matter of employee classification will be reduced in importance. Also the compliance with information filing, or failure to do so, has important influences on the success of proposed changes to employment tax liability. In a similar fashion, reimbursement plans for expenses may support employment tax adjustments. An accountable plan implies control.

TRANSFER PRICING

Presently there does not appear to be a considerable amount of foreign involvement in the masonry industry insofar as the consumption of masonry products is concerned. However, three of the five largest cement producing firms in the United States are foreign owned. Therefore, examiners should be alert to this and other issues typically identified when examining international companies.

Foreign-owned U.S. corporations are required to follow certain information reporting (Form 5472), record maintenance, and agent authorization requirements contained in IRC section 6038A and attendant regulations. A \$10,000 penalty may be imposed for the failure to file Form 5472, or to maintain the required records. Additional \$10,000

penalties may be imposed for continued failures after notification by the IRS. Also, the failure to substantially comply with applicable IRC section 6038A summons or agent authorization requirements may result in a penalty. IRC section 6038A and attendant regulations greatly enhance the ability of examiners to obtain information about related party transactions engaged in by foreign-owned U.S. corporations.

PRICING

The pricing of masonry product/services is similar to the rest of the construction industry and uses convenient units of measure such as volume or weight for liquid or shapeless materials. The unit or square measure is the norm for form placement of concrete or dimensioned products. What examiners have to be alert to are intercompany pricing policies that are tax motivated.

MISCELLANEOUS

Different types of bonding may be required of concrete/masonry suppliers/contractors. The most common is a performance bond. As one would expect, the larger the job the more likely the requirement. Sometimes the most valuable intangible asset a company possesses is a working relationship with a bonding company that has been carefully cultivated. Establishment of a good bonding record requires not only a good business history but items useful to an examiner such as certified statements, SEC filings, and bank loan applications.

Financing practices used within the masonry and concrete industry are similar to financing practices used within other segments of the construction industry. For example, masonry and concrete contractors sometimes attempt to delay payments to subcontractors and suppliers in an attempt to improve their cash positions.

Details of the use of operating ratios are beyond the scope of this guide. There are, however, several publications available in many municipal libraries that offer financial operating ratios as well as data that can be used to calculate common cost percentages. Two annual publications that are useful are **The Means Building Construction Cost Data**, R.S. Means Co., Kingston, MA and **Craftsman National Construction Estimator**, Craftsman Book Co., Los Angeles, CA.

Chapter 5

INDUSTRY ORGANIZATIONS AND RESOURCES

ORGANIZATIONS

Following is a listing of some of the organizations in the United States that are available to service, in some manner, the masonry, cement, and concrete industry. These organizations should be regarded as resources available to examiners auditing returns in this market segment and particularly those chosen as a MSSP Construction and Masonry/Concrete Specialist. It is also highly recommended that MSSP examiners take the time to learn their local "speciality" market. Using local telephone books, regional and metropolitan area trade associations can be identified. They generally have an abundance of information regarding their industry, including some of the unique practices and concerns that currently exist locally. Experience has shown that at the national level trade associations are very willing to share information, educational materials, and other data with the public relative to their industry. Furthermore, trade associations have graciously accepted the fact that the IRS is interested in their market segment and have often agreed to "share the word," using their in-house news letters with their clients concerning the Service's involvement with the industry and its compliance interest. The associations interests are also served, since their primary goal is to keep their clients/ subscribers informed, and they have worked with the Service in a collaborative effort towards that end.

American Concrete Pumping Association (ACPA)
2433 Northwoods Dr.
Saukville, WI 53080
Donald Taylor, contact Members 260 Concrete

American Society for Concrete Construction
1902 Techny Ct.
Northbrook, IL 60062
312-291-0270
W. Burr Bennett, Jr. Exec. VP Members 900 Contractors

American Subcontractors Association (ASA)
1004 Duke St.
Alexandria, VA 22314
703-684-3450
Chris S. Stinebert, Exec. VP Members 8,500 Contractors

Brick Institute of American (BIA)
11490 Commerce Park Dr.
Reston, VA 22091
Nelson J. Cooney, Pres. Members 60 Building Industries

Building Stone Institute (BSI)
PO Box 5047
White Plains, NY 10602 Members 400 Stone

Cement, Lime, Gypsum and Allied Workers Division (CSDA)
New Brotherhood Bldg. S-570
753 State Ave.
Kansas City, KS 66101
Henry Becholtd, VP Members 10,000 Concrete

Concrete Sawing and Drilling Association (CSDA)
4900 Blazer Parkway
Dublin, OH 43017
614-766-3656
Pat O'Brien, Exec. Dir. Concrete

Council on Tall Buildings and Urban Habitat (CTBUH)
Lehigh University, Fritz Engineering Lab.
13 E. Packer Ave.
Bethlehem, PA 18015
215-758-3515
Dr. Lynn S. Beedle, Dir. Members 1,300 Architecture

Deep Foundations Institute (DFI)
120 Charlotte Place, #rd Fl.
Englewood Cliffs, NJ 07632
201-567-4232 Members 644 Contractors

High Twelve International (HI-12)
11155 S. Towne Sq., No.B2
St. Louis, MO 63123
314-487-3387
Robert L. Jorgensen, Sec. Members 25,000 Masons

International Concrete Repair Institute (ICRI)
c/o Milton J. Collins
1323 Shepard Dr. S-D
Sterling, VA 20164
Milton J. Collins, Exec. Dir. Members 800 Concrete

International Council of Employers of Bricklayers and Allied
Craftsmen (ICEBAC)
821 15th St. NW, S-1111
Washington, DC 20005
202-783-3791 Eugene George, Pres. Members 5000 Contractors

International Masonry Institute (IMI)
823 15th St. NW
Washington, DC 20005
202-383-3903
Ray Lackey, Exec.VP Contractors

National Association of Brick Distributors (NABD)
1600 Spring Hill Rd. No. 305
Vienna, VA 22182
Kenneth S. Dash, Contact Members 500 Building Industries

National Concrete Masonry Association (NCMA)
2302 Horse Pen Rd.
Herndon, VA 22071
703-713-1900
John Heslip, Pres. Members 500 Concrete

National Precast Concrete Association (NPCA)
10333 N. Meridian St. S-272
Indianapolis, IN 46290
317-571-9500 Members 700 Concrete

National Stone Association (NSA)
1415 Elliot Pl. NW
Washington, DC 20007
202-342-1100
Robert G. Bartlett, Pres. Members 500 Stone

Marble Institute of America (MIA)
33505 State St.
Farmington, MI 48335
810-476-5558
Robert Hund, Mng. Dir. Members 650 Stone

Mason Contractors Association of America (MCAA)
1550 Spring Rd., S-320
Oak Brook, IL 60521
708-782-6767
Michael Adelizzi, Exec. Dir. Members 1,500 Contractors

The Masonry Society (TMS)
2619 Spruce St. Suite B
Boulder, CO 80302
303-939-9700 Members 1,500 PA, Engineers, Architects, Educators

OTHER RESOURCES AND MATERIALS

A complete listing of " Other Resources and Materials" can be found in the "Construction Industry" MSSP Guide and, therefore, is not reprinted in this document.

GLOSSARY OF MASONRY TERMS

Additives -- Certain chemicals have been developed over the years to alter the properties of concrete and these are added during the mixing process. In freezing weather, a chemical can be added to lower the freeze point of the wet mixture. In hot weather and long distance hauling, crushed ice is sometimes added to the mixture to extend time before the concrete begins to set. Fly ash costs less than cement and can be substituted up to about 10 percent. Concrete is sometimes colored with dyes. Forms are often sprayed with chemicals to prevent concrete from bonding to them. Chemicals are available to increase the workability of concrete or to advance the setting.

Aggregates -- A variety of graded materials that are components of concrete. Sand, gravel, or crushed stone are typical aggregates. A typical mix of concrete would contain aggregates of two or more sizes one of which is always sand followed by one or more sizes of rock or crushed stone.

Cement -- Finely ground calcined rock and clay materials that form the binder in concrete. Portland cement weighs about 97 pounds per cubic foot.

Chairs -- Plastic shapes used to support reinforcing steel prior to placement of concrete.

Concrete -- Mixture of cement, aggregates and water that will harden or set into a solid stone-like material.

Concrete Plant -- Portable or fixed machinery that measures components of concrete and places them in a mixer truck or is mixed on site for transport.

Cure Time -- The time for fresh concrete to reach its design strength. Typically concrete will reach 90 percent of design strength about 30 days after placing and gradually approach 100 percent over time. A recent development is HES or High Early Strength concrete. Chemical additives like HES make it possible to use certain concrete structures after only a few hours of curing.

Fly Ash -- By-product of smoke stack emission control that may be used as a substitute for a portion of the cement in a concrete mix.

Form -- A mold in which concrete is placed to set. These may be made of used wood materials, plastics, metal, etc. Some are disposable and other reusable. Can be self-constructed, purchased, or rented.

Hod -- Small platform, tray or trough that has a pole handle and that is borne on the shoulder for carrying loads as mortar or brick.

Hod Carrier -- A laborer employed in carrying supplies to bricklayers, stonemasons, cement finishers, or plasterers on the job.

Kiln -- Oven where high temperatures are used to fire bricks or other ceramic products.

Light Weight Concrete -- Special low density concrete used where strength is not a primary requirement.

Masons -- Generic term given to a broad class of skilled workers who make final placement of shaped masonry products and concrete.

Mortar Mix -- A special type of cement used as a component in the laying of bricks or blocks.

Portland -- Generic name given cement for general purpose concrete. First used by a 19th century developer of concrete. Named for a type of stone found in the British Islands.

Post-stressed -- A technique used mainly in the forming of foundation slabs where threaded steel rods are embedded in the concrete but transverse tension is not placed on the concrete until after the concrete is cured.

Pre-stressed -- A technique of embedding steel in concrete shapes so that the end result will meet certain design specifications for strength and rigidity.

Pumper -- Equipment that is often truck mounted used to pump concrete from one place/level to another.

Rebars -- Steel rods ranging from 3/8- to 3-inches thick placed in concrete forms to produce reinforced concrete.

Reinforced Concrete -- Shapes containing steel bars or wire to create stronger and more shock resistant material.

Slump -- A field test given to concrete before curing that measures the viscosity and indirectly the water content. Generally the less viscous, the higher the cured strength for any given mix.

Strength -- Concrete strength is usually expressed in terms of pounds per square inch (PSI). 3,000 PSI is a typical specification for building foundations. A sample of wet concrete is placed in a test cylinder and after curing, the sample is compressed to its breaking point on a machine built to show a reading when the concrete breaks. Sometimes a

sample is cut from the cured concrete with a circular cylinder cutter. An older and less precise measurement of strength is given in terms of "sacks" per yard. In other words a five bag mix would contain about 500 pounds of cement per cubic yard of concrete.

Tie Wire -- Short pieces of wire used to secure rebars in place until the concrete has been poured and at least partially cured.

Transit Mix -- Concrete that is mixed while being transported by truck to a job site.

Wall Ties -- Small strips of metal fastened to a building's primary structure to hold the masonry in place.