

THE DAVIS-BACON ACT

Not only does the Davis-Bacon Act protect wages for laborers, but it can also be used as a tool to help save your company money.



What is the Davis-Bacon Act?

- A Federal law that requires contractors and subcontractors to pay at least the locally prevailing wages, including fringe benefits.
- Subject to federally funded projects, as well as state and locally funded projects where applicable.

What are the locally prevailing wages?

- Hourly base wage + hourly fringe benefit = total hourly requirement

\$30/hr Base Wage

+

\$15/hr Fringe Benefit

=

\$45/hr Total Hourly Wage

- Varies based on geographic location and craft (i.e., plumber, electrician, etc.)

What is the actual cost?

Payroll taxes, or "labor burden," is owed on all wages paid in cash. On average, these taxes can total 30% and include:

FICA

FUTA

SUTA

WORKERS'
COMP

GENERAL
LIABILITY

What does that mean to me?

The Davis-Bacon Act allows for two (2) options:

1. Pay the fringe benefit in cash (subject to payroll taxes).
2. Pay the fringe benefit to a bona fide trust for the employee's benefit. All payroll taxes are **PERMANENTLY** avoided, resulting in hourly savings per employee.

	Base Wage (per hour)	Fringe Benefit (per hour)	Labor Burden Percentage	Labor Burden Cost (per hour)	Total Cost (per hour)
1. Fringe Paid in Cash	\$30	\$15	30%	\$13.50	\$58.50
2. Fringe Paid to Bona Fide Trust	\$30	\$15	30% (only on \$30 base wage)	\$9	\$54.00

* In this example, the contractor saves **\$4.50 per hour per employee**.

ABC Contractor employs 25 field employees when they perform projects subject to the Davis-Bacon Act and state prevailing wage laws. They chose to pay the mandatory fringe benefit in cash.

Below is an illustration of ABC's payroll costs:

Private job wage: \$25/hr (1,040 hours)
Base wage: \$30/hr.

Amount of prevailing wage work: 50% (1,040)
Fringe benefit: \$15/hr.

	Hours	Total hourly amount	Total	Average labor burden	Total	Annual Total
Hours worked on PW Jobs	1,040	\$45	\$46,800	30%	\$14,040	\$60,840
Hours worked on Private Jobs	1,040	\$25	\$26,000	30%	\$7,800	\$33,800
Annual Total	2,080	N/A	\$72,800	30%	\$21,840	\$94,640
All 25 Field Employees	52,000	N/A	\$1,820,000	30%	\$546,000	\$2,366,000

If ABC Contractor chooses to pay the \$15/hr. fringe to a bona fide trust managed by Beneco, all labor burden is permanently avoided on the fringe dollars and saves the contractor thousands:

	Hours	Total hourly amount	Total	Average labor burden	Total	Annual Total
Hours worked on PW Jobs	1,040	\$45	\$46,800	30% (only on the \$30 base wage)	\$9,360	\$56,160
Hours worked on Private Jobs	1,040	\$25	\$26,000	30%	\$7,800	\$33,800
Annual Total	2,080	N/A	\$72,800	30%	\$17,160	\$89,960
All 25 Field Employees	52,000	N/A	\$1,820,000	30%	\$429,000	\$2,249,000

ABC Contractor can save **\$117,000** by paying the fringe benefit to the Beneco Plan.

Savings to the bottom line can allow for more competitive bidding, an opportunity to win more jobs, hire more personnel, and reinvest back into the business!