



perspective
GAINED

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20 for 2020
+ TAX CHALLENGES AND OPPORTUNITIES

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WHAT YOU WILL GAIN

- Knowledge about recent tax challenges
- Tax strategies to implement now
- Planning opportunities for 2020

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RESEARCH AND DEVELOPMENT TAX CREDIT

CHALLENGE

- Starting in 2022: New requirement to amortize costs over 5 year period
- Provisions in TCJA have allowed more taxpayers the ability to benefit from the credit

OPPORTUNITY

- AMT hurdle for claiming credit has been diminished; can we take advantage?
- Accelerate major R&D projects to avoid 2022 capitalization requirement?

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SOLAR INVESTMENT TAX CREDIT (ITC)

CHALLENGE

Will begin phasing out:

- 30% credit for projects started in 2019
- 26% credit for 2020, 22% credit for 2021
- 10% credit for only commercial investment in 2022 and beyond

OPPORTUNITY

Accelerate plans to invest in solar technology?

Physical work of a significant nature or 5% safe harbor test

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QUALIFIED OPPORTUNITY ZONES

CHALLENGE

How can we mitigate our tax exposure in a year when significant capital gains have been realized?

OPPORTUNITY

- Qualified Opportunity Funds
 - Liquidity and risk tolerance considerations
- Deferral/exclusion of capital gain income

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ACCELERATED TAX DEPRECIATION

CHALLENGE

Bonus depreciation is set to phase out by 20% each year beginning January 1, 2023 until it completely expires on December 31, 2026

OPPORTUNITY

- Consider phase out in planning the timing of future capital purchases
- Cost segregation studies are an effective way to reclassify certain assets to shorter useful lives subject to bonus depreciation

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MAINE CAPITAL INVESTMENT CREDIT

CHALLENGE

- Effective for tax years beginning on or after January 1, 2020
- Set to be reduced to 1.2% from previous credit of 9% and 7% for corporate and all other taxpayers, respectively

OPPORTUNITY

- Less immediate benefit for ME income tax
- Should provide more consistent cost recovery deductions that aren't impacted significantly by current year capital expenditures

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UNRELATED BUSINESS INCOME “SILO” REQUIREMENTS

CHALLENGE

New UBI tax landscape for tax exempt entities for tax years beginning 1/1/2018

Losses from one activity no longer available to offset income from another activity for computing tax liability

OPPORTUNITY

- Consider alternative structures
- Allocation of shared costs

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TAX-EXEMPT ENTITIES: TAX ON EXCESS EXECUTIVE COMPENSATION

CHALLENGE

Excise tax of 21% on Excess Compensation

OPPORTUNITY

- Longer vesting schedules to spread payments over more years
- Shifting strategy between pay for active services and separation pay

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TAX REFORM IMPACT ON CHARITABLE GIVING

CHALLENGE

Tax reform is squeezing charitable giving

OPPORTUNITY

Educate donors about the strategies

- Bunching - budget for “off years”
- Donor advised funds
- Qualified charitable distributions from IRAs to satisfy required minimum distributions

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PARKING TAX

CHALLENGE

Employer provided parking for employees not deductible by for-profit entities and taxable as UBI for tax-exempt entities

OPPORTUNITY

- Re-evaluate parking arrangements or lease agreements
- Eliminate reserved employee spots
- Repairs vs. capitalized cost

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REVISITING THE CHOICE OF ENTITY DECISION

CHALLENGE

Post TCJA income tax rates lead to questions regarding entity structure

OPPORTUNITY

Factors to consider:

- Double taxation
- Accumulated earnings tax
- 20% QBI available to pass-through entity owners
- Future tax rates

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QUALIFIED BUSINESS INCOME (QBI)

CHALLENGE

Does rental real estate activity qualify to benefit from the qualified business income deduction?

OPPORTUNITY

The IRS issued Notice 2019-07 detailing a new safe harbor provision in which rental real estate activity would rise to the level of a trade or business.

- Revisit lease agreements
- Review recordkeeping requirements

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QUALIFIED BUSINESS INCOME (QBI)

CHALLENGE

How to classify QBI when qualified activity consists of both service (SSTB) and non-service activity?

Final regulations provide a safe harbor to avoid SSTB classification if SSTB activity represents less than 10% of total gross receipts

OPPORTUNITY

Potential to define separate trade or business activity in order to avoid reporting all qualified business income as SSTB

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SMALL BUSINESS TAXPAYER RELIEF

CHALLENGE

How can we manage cash flow more effectively especially as it relates to our expected tax liability?

OPPORTUNITY

- The TCJA has eased the qualifications for taxpayers eligible to use the cash method of accounting
- Deferral of taxable income until cash is received

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SMALL BUSINESS TAXPAYER RELIEF

CHALLENGE

The TCJA allows more taxpayers to treat inventories as nonincidental materials and supplies or conform the treatment of inventory to the taxpayer's AFS

OPPORTUNITY

- Ability to immediately deduct applicable purchases
- Eases administrative burden of tracking inventory

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SMALL BUSINESS TAXPAYER RELIEF

CHALLENGE

The TCJA allows more taxpayers to account for long term contracts using the completed contract method in lieu of the percentage of completion method

OPPORTUNITY

Deferred recognition of taxable income generally provides a more tax efficient approach when compared to alternatives

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BUSINESS INTEREST EXPENSE DEDUCTION LIMITATION

CHALLENGE

Deductibility of net business interest expense limited to 30% of a taxpayer's "adjusted taxable income"

OPPORTUNITY

Determine if you qualify for exemption

- Real estate and farming entities: consider electing real property trade or business
- Re-structure debt

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NET OPERATING LOSSES

CHALLENGE

Newly generated NOLs carryforward and limited to 80% of taxable income

OPPORTUNITY

- Tracking – pre 2018 NOLs still subject to 20 year carryforward period and deductible 100%
- Avoid underpayment penalties
- Impact in M&A transactions

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EXCESS BUSINESS LOSS LIMITATION

CHALLENGE

Noncorporate taxpayers subject to new limitation on business losses

OPPORTUNITY

- Long-term planning when accelerating deductions
- Aggregation of all business income and deductions is permitted
- Carried forward as NOL - available in following tax year to offset other sources of income

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GAAP MEETS INCOME TAX

CHALLENGE

Revenue conformity

OPPORTUNITY

- Explore tax accounting methods that are available
- Proposed regulations released 09/05/2019

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EXIT PLANNING

CHALLENGE

50% of exits are not voluntary

The 5 D's (Death, Disability, Divorce, Distress, Disagreement)

OPPORTUNITY

Exit Planning is Business Strategy

- Identify, Protect, Build, Harvest, Manage Enterprise Value
- Value Acceleration



QUESTIONS & DISCUSSION

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