



perspective  
**GAINED**

# Tax challenges and opportunities

**ENERGIZE YOUR BUSINESS WITH BERRYDUNN**

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## **WHAT YOU WILL GAIN**

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

# 1

## 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?

# 2

## 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 only for 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

# 3

## 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

# 4

## 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

# 5

## 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

# 6

## 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



# 7

## 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

# 8

## 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

# 9

## 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

# 10

## 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

# 11

## 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

# 14

## 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



# 15

## 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



## Questions

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