

Tax Savings Opportunities – Exploring CARES Act & TCJA Accounting Method Changes and Re-examining the R&D Tax Credit

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Agenda

1. CARES Act – Qualified Improvement Property
2. TCJA – Exploring Potential Accounting Method Changes
3. Re-examining the Research and Development Credit



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CARES Act – Qualified Improvement Property

- Qualified Improvement Property (“QIP”)
 - Any improvement to an interior portion of a building which is nonresidential real property if such improvement is placed in service after the date the building was first placed in service
 - **Cannot** be part of a new construction project
 - **Excludes** expenditures attributable to the enlargement of the building, any elevator or escalator, or the internal structural framework of the building
 - Interior renovations: drywall, ceilings, interior doors, fire protection, mechanical, electrical and plumbing

Planning point : also consider repair regulations for renovations

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CARES Act – Qualified Improvement Property (cont.)

- Qualified Improvement Property (“QIP”)
 - 39 year vs. 15 year depreciable tax life
 - Straight-line depreciation vs. bonus depreciation
 - 100% Bonus depreciation
 - Eligible property can be expensed
 - Mostly a federal tax concept



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CARES Act – Qualified Improvement Property (cont.)

- Qualified Improvement Property (“QIP”)
 - TCJA vs. CARES Act
 - TCJA – QIP was deemed to be 39 year property, thus ineligible for bonus depreciation
 - CARES Act – corrected TCJA classification of QIP and is now 15 year property, thus eligible for bonus depreciation
 - CARES Act allows for retroactive lookback to 2018 and 2019 and also applies prospectively



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CARES Act – Qualified Improvement Property (cont.)

- Qualified Improvement Property (“QIP”)
 - Any businesses that renovated their commercial buildings in 2018 and/or in 2019 should review fixed asset ledgers
 - Applies to owners of commercial property as well as lessees
 - Immediate opportunities for 2018 and 2019 tax returns
 - **Automatic** accounting method change for 2019
 - Amend 2018/2019 tax returns
 - Method change available for 2020 tax year

TAX PLANNING OPPORTUNITY

- What is the best year to take advantage of deductions? (Tax rates, interplay with other deductions/credits, changes in ownership, etc.)
- Consider cost segregation study



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TCJA & Other Accounting Method Changes

<u>Accounting Method</u>	<u>Applicable/limitations</u>	<u>Benefit</u>
Cash method	Average annual gross receipts are under \$26 million*	Create an opportunity for tax deferral
UNICAP exemption	Average annual gross receipts are under \$26 million*	Ability to deduct indirect costs as period costs when incurred
Inventory not required	Average annual gross receipts are under \$26 million*	Ability to deduct direct overhead costs immediately

*Attribution Rule Applies



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TCJA & Other Accounting Method Changes

<u>Accounting Method</u>	<u>Applicable/limitations</u>	<u>Benefit</u>
Long-term Contracts – completed contract	Average annual gross receipts are under \$26 million*	Create an opportunity for tax deferral
Prepaid Expenses	12-month rule	Ability to deduct prepaid expenses when paid
Bad Debt – specific charge off	Review A/R for financially distressed customers	Ability to deduct bad debts immediately vs. reserve

*Attribution Rule Applies



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Re-examining the R&D Tax Credit

- Research and Development/Experimentation Tax Credit
- Made permanent as part of the Protecting Americans from Tax Hikes (PATH) Act of 2015
- Tax credit = reduces tax liability dollar-for-dollar
- Also able to deduct costs incurred, with limitations



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Re-examining the R&D Tax Credit (cont.)

- Qualified research expenses (QRE)
 - Wages
 - Interplay with PPP and loan forgiveness
 - Supplies
 - Contract research expenses
 - Attorney related patent expenses



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Re-examining the R&D Tax Credit (cont.)

Four Part Test to Qualify – Qualified Research Activity



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Re-examining the R&D Tax Credit (cont.)

Process Improvements

Shop re-design

Workflow improvements

Job improvements – reduce cost, improve quality, performance and/or reliability

Product Improvements/Development

Tool making

New packaging

New products

Internal-use Software

ERP system

Website development

Phone application development



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Brian has a wide range of experience providing domestic and international tax planning and compliance services to a variety of middle market companies and entrepreneurial businesses in a number of industries, including manufacturing, distribution, media, real estate, financial, and professional services. He has also assisted companies with business transactions, including mergers, acquisitions and transition planning.



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As the Director-in-Charge of Kreischer Miller's Tax Strategies practice, Lisa provides strategic leadership and management of the group, including recruiting, training, team member development, and serving as a resource on technical matters. She is a trusted advisor to her clients, providing tax and business advisory services for a broad range of privately-held businesses including real estate developers and investors, construction contractors, manufacturers, and distributors.



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