ABOUT KBKG

Established in 1999 with offices across the US, KBKG provides turn-key tax solutions to CPAs and businesses. By focusing exclusively on value-added tax services that complement your traditional tax and accounting team, we always deliver quantifiable benefits to clients.

Our firm provides access to our knowledge base and experienced industry leaders. We help determine which tax programs benefit clients and stay committed to handling each relationship with care and diligence. Our ability to work seamlessly with your team is the reason so many tax professionals and businesses across the nation trust KBKG.

SERVICES OVERVIEW

Research & Development Tax Credits

Federal credit worth approximately 10% of every qualified dollar spent on developing brand new or improving existing products, processes, software, and formulae.

Cost Segregation for Buildings and Improvements

Any building improvement over $750,000 should be reviewed for proper classification of the individual components for tax depreciation, and retirement purposes.

45L Credits for Energy Efficient Residential Developments

Newly constructed or renovated apartments, condos, and tract home developments that meet certain criteria are eligible for a $2,000 credit per unit.

179D Incentive for Energy Efficient Commercial Buildings

Federal deduction worth $1.80 per square foot of energy-efficient buildings. Available to architects, engineers, design/build contractors and building owners.

IC-DISC

The Interest Charge Domestic International Sales Corporation (ICDISC) offers significant Federal income tax savings for making or distributing U.S. products for export. IC-DISC benefits are available to qualified producers or distributors that are either directly involved in exporting, or selling products to distributors or wholesalers who resell for use outside of theU.S.

Transfer Pricing Services

The cross-border transfer prices of goods, royalties, services, and loans drive how much income tax a multinational company pays by country. We assist US and international companies in establishing, documenting, and defending transfer pricing practices for the IRS and international tax authorities.

Fixed Asset Review

While a cost segregation study focuses on buildings, a comprehensive Fixed Asset Tax Review encompasses all fixed assets a company owns including real property, machinery, furniture, fixtures, and equipment.

Repair vs. Capitalization Review §263(a)

Taxpayers often capitalize major building expenditures that should be expensed as repairs and maintenance such as HVAC units, roofs, plumbing, lighting and more. Retirement loss deductions for demolished building structural components are also identified.

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INDUSTRY MATRIX FOR TAX SAVING OPPORTUNITIES

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At KBKG, we are committed to identifying all possible tax saving opportunities for our clients and CPA partners. Our detailed Industry Matrix helps quickly determine which tax credits and deductions apply by industry at a glance. Our chart alone provides some insight to ensure that businesses are seeking out all potential benefits; however, KBKG's certified engineers and technical experts perform a thorough assessment during the engagement process to be sure all possible incentives are identified and considered.

INDUSTRY	R&D TAX CREDITS	REPAIR/ ASSET RETIREMENT	45L TAX CREDITS	179D TAX DEDUCTIONS	COST SEGREGATION / FIXED ASSET	IC-DISC	*TRANSFER PRICING	EMPLOYEE RETENTION TAX CREDIT
Affordable Housing		✓	✓	✓	✓			✓
Agriculture, Forestry & Fishing	✓				✓	✓	✓	✓
Architecture & Engineering	✓			✓	✓	✓		✓
Auto Dealerships		✓		✓	✓			✓
Cannabis	✓				✓			✓
Communications & Utilities	✓	✓			✓	✓		✓
Construction	✓				✓			✓
Film & Music	✓				✓	✓	✓	✓
Financial Services	✓	✓			✓		✓	✓
Government Contractors	✓			✓	✓	✓		✓
Healthcare	✓	✓		✓	✓		✓	✓
Home Builder			✓					✓
Hotels	✓	✓		✓	✓		✓	✓
Manufacturing & Distribution	✓	✓		✓	✓	✓	✓	✓
Mining	✓				✓	✓	✓	✓
Multifamily Developers		✓	✓	✓	✓			✓
Oil & Gas	✓	✓			✓		✓	✓
Pharmaceutical	✓	✓		✓	✓	✓	✓	✓
Professional Services	✓	✓			✓		✓	✓
Real Estate		✓		✓	✓			✓
Restaurants		✓			✓			✓
Retail	✓	✓		✓	✓			✓
Technology/Software	✓				✓	✓	✓	✓
Transportation	✓				✓		✓	✓
Wholesale Trade	✓	✓		✓	✓	✓	✓	✓

**May apply to any industry as long as the company has cross border subsidiaries. Industries indicated are more likely to have multinational business.*

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IDENTIFYING VALUE-ADDED TAX OPPORTUNITIES

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KBKG SERVICE	DESCRIPTION & HIGHLIGHTS	APPLICABLE CLIENTS & INDUSTRIES	HOW MUCH IS IT WORTH?	TAX CONSIDERATIONS
RESEARCH & DEVELOPMENT TAX CREDITS (FEDERAL & STATE)	Federal and State tax credit – designed to promote innovation. Expenses incurred in the United States and that meet the qualification criteria can result in a credit. Qualifying expenses can include wages paid to employees, supplies used in the research process, and payments made to contractors for performing qualified research.	Clients developing brand new products, processes, software, or formula. Clients materially improving existing products, processes, software or formula. Clients that employ those with technical backgrounds including: • Manufacturing • Software Development • Architecture • High Tech • Food & Beverage • Equipment or tools • Life Sciences • Agriculture	**Federal Benefit - Roughly 10% of their total Qualified R&D Expenses** Ex.: Client has $1M/year of wages related to R&D. Benefit = $100k in gross credits per year. Many states also allow an R&D credit. For example, CA R&D Credit is worth an additional 7.5% of Qualified R&D expenses.	• Dollar-for-dollar reduction in income tax liabilities. • 1-year carryback / 20-year carryforward of unused credits. • Qualified small businesses can reduce alternative minimum tax liabilities. • Qualified start-up companies can offset up to $250,000 in payroll taxes.
COST SEGREGATION (FEDERAL & STATE)	Allows **taxpayers who have constructed, purchased, expanded, or remodeled any kind of real estate** to accelerate depreciation deductions by reclassifying building components into shorter tax lives.	Any **building with over $750k** of depreciable tax basis (excluding land). Any **leasehold improvement with over $500k** of depreciable tax basis (excluding land). Any smaller **residential rental property with over $150k** of depreciable tax basis (excluding land) can utilize KBKG's online software to generate a cost segregation report.	Net Present Value is roughly **5% of the total building cost.** Ex.: $2M office can yield an after-tax NPV of $100k.	• Reduces AMT • Starting in 2018, unused deductions carryforward. • Must recapture personal property and bonus eligible assets upon the sale of a building.
TRANSFER PRICING (INTERNATIONAL)	Federal credit for developers of **apartments, condos, or spec homes** that meet The transfer prices of goods, royalties, services, and loans drive how much income tax is paid by country. Corrections to transfer pricing may lead to significant improvements in a company's global effective tax rate. Savings dependent on differences in tax rates between countries and can be significant. Tax reform provides incentives for companies to generate income in the US with lower rates certain energy efficiency standards. Units must be certified by a qualified professional to be eligible.	All US and foreign-owned multinational companies. Transfer pricing rules apply to goods, services, royalties, loans and other cross-border transactions in all industries Companies with supply chain restructuring programs, new R&D facilities, or international subsidiaries are often best placed to realize benefits.	US tax reform has created opportunities to improve global effective tax rates through changes to transfer prices, e.g. • Foreign Derived Intangible Income ("FDII") allows C-Corporations to pay a 13.125% rate on some export income • Changes to transfer prices of imported goods may also lead to tax savings at the 21% rate. • Substantial benefits when correcting transfer pricing to utilize tax net operating losses.	Companies without transfer pricing documentation can face additional tax, interest, non-deductible penalties and double tax for all open tax years. Tax authorities are concerned about multinational companies paying their "fair share" of income tax in each country where they operate.

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IDENTIFYING VALUE-ADDED TAX OPPORTUNITIES

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KBKG SERVICE	DESCRIPTION & HIGHLIGHTS	APPLICABLE CLIENTS & INDUSTRIES	HOW MUCH IS IT WORTH?	TAX CONSIDERATIONS
RESIDENTIAL ENERGY CREDITS / SECTION 45L (FEDERAL / STATES CAN HAVE SIMILAR PROGRAMS)	Federal credit for developers of **apartments, condos, or spec homes** that meet certain energy efficiency standards. Units must be certified by a qualified professional to be eligible.	Anyone that has built apartments, condos or production home developments (3 stories or less), in the last 4 years. **Generally, more than 20 units.**	**Federal credit = $2,000 per apartment/home unit.** **Many states have similar credits.** Ex.: 100-unit apartment/ condo can get $200,000 of Federal Tax Credits.	• Credit is realized when unit is first leased or sold, not placed in service. • 1-year carryback • 20-year carryforward. • Does not reduce AMT. • Subject to passive activity loss rules • Credit reduces basis.
COMMERCIAL ENERGY DEDUCTIONS / SECTION 179D (FEDERAL/ STATES CAN HAVE SIMILAR PROGRAMS)	Federal deduction for **architects, engineers, and design/build contractors** that work on public or government buildings such as schools, libraries, courthouses, military housing etc. **Also available to any commercial building owner.**	• **179D for designers:** Architects, general contractors, engineers, electrical & HVAC subcontractors. • **Any building owner or lessee:** That has constructed a commercial improvement greater than 50,000 SF since 1/1/2006.	**$.30 up to $1.80 per square foot in federal tax deductions.** Ex.: 100,000SF building is eligible for $180,000 in deductions.	• Reduces AMT • Deduction reduces basis in real property. • Designers must amend open tax years to claim. • Owners can go back to 2006 with Form 3115 to claim missed deductions.
FIXED ASSET TAX REVIEW (FEDERAL)	Comprehensive review of a company's entire fixed asset listing and supporting documents to assign appropriate tax lives, identify retirements, and correct items that should be expensed. Includes cost segregation and repair analysis.	Operations with > $40M in real property or > 500 lines of fixed assets. • Retail, restaurant, bank and hotel chains of 10 or more • Manufacturing • Utility companies	Net present value (NPV) of 5-8% of total building-related costs. Ex.: Manufacturing client has $60M of 39-year fixed assets. NPV Cash value = $3M -$4.8M	• Reduces AMT • Starting in 2018, unused deductions carryforward. • Must recapture personal property and bonus eligible assets upon the sale of a building.
REPAIR V. CAPITALIZATION REVIEW "ASSET RETIREMENT STUDY" (FEDERAL)	New rules allow you to assign value to "structural" components removed from a building and write off the remaining basis. Regs also clarify repair expense treatment of many types of building costs such as HVAC or roof replacements. KBKG also provides compliance consulting for repair and disposition regulations.	**Any building renovation costs > $400k** **Retirement Study -** Building is renovated AFTER owning it at least 1 year. Building should have **<u>> $500K of remaining depreciable basis left.</u>** **Repair Study** - renovations that include **roof, HVAC, windows, lighting, plumbing, ceilings, drywall, flooring, etc.**	Additional Year 1 deductions of **15%-40% of renovation costs (on top of benefits from 1245 reclassification)** Ex.: Client spends $3M on structural renovations. Additional Year 1 deductions of $450K-$1.2M.	• Depending on project specifics, may require a separate 3115 if doing concurrently with a depreciation change.
IC-DISC FEDERAL INCOME TAX INCENTIVE (FEDERAL)	The IC-DISC provides significant and permanent tax savings for producers and distributors of U.S.-made products and certain services used abroad.	**Any closely held, privately owned business with over $250,000 in profits from exports** • Manufacturers • Distributors • Architects & Engineers • Agriculture and Food Producers • Software Developers • Other Producers	Minimum permanent **17% decrease in tax rate on half of export profits.** Benefits can be dramatically higher by performing a transaction-by-transaction analysis.	• Requires annual filing 1120 IC-DISC. • No changes to business operations. • Benefits begin when entity is formed.

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Qualified Improvements - Depreciation Quick Reference (updated 3/30/2020)

	Applicable PIS Dates (inclusive)	MACRS GDS Recovery Period	Bonus Dep Eligible	3 Year Rule	Unrelated Parties Rule	179 Expense Eligible	Important Notes	Code Section
Qualified **Improvement** Property (QIP): 2018 - Onward	01/01/18 - onward	15 Year / SL	Y	N	N	Y [9]	Applies to interior common areas. Building can be owner occupied. No 3-year rule. See exclusions in definition.	168(e)(6)
Qualified **Improvement** Property (QIP): 2016 - 2017	1/1/16 - 12/31/17	39 [5] Year / SL	Y	N	N	N [7]	Applies to interior common areas. Building can be owner occupied. No 3-year rule. See exclusions in definition.	168(k)(3)
Qualified **Leasehold** Improvements (QLI): 2004 - 2017	10/23/04 - 12/31/17	15 Year / SL	Y [1]	Y	Y	2010 - 2017 [6]	Landlord or lessee can make the interior improvement. See exclusions in definition.	168(e)(6)
Qualified **Leasehold** Improvements (QLI): 2001 - 2004 Partial	9/11/01 - 10/22/04	39 Year / SL	Y	Y	Y	N/A	39 year QLI qualifies for Bonus. Landlord or lessee can make the interior improvement. See exclusions in definition.	168(e)(6)
Qualified **Retail** Improvement Property: 2016 - 2017	1/1/16 - 12/31/17	15 Year / SL	Y	Y	N	2010 - 2017 [6]	Building can be owner occupied. See exclusions in definition.	168(e)(8)
Qualified **Retail** Improvement Property: 2009-2015	1/1/09 - 12/31/15	15 Year / SL	N [2]	Y	N	2010 - 2017 [6]	Building can be owner occupied. See exclusions in definition.	168(e)(8)
Qualified **Restaurant** Property: 2009 - 2017	1/1/09 - 12/31/17	15 Year / SL	N [4]	N	N	2010 - 2017 [6]	Encompasses the entire building structure as well as interior costs. Can be an acquired building.	168(e)(7)
Qualified **Restaurant** Property: 2008	1/1/08 - 12/31/08	15 Year / SL	Y	Y	N	N/A	Applicable to all improvements attached to building.	168(e)(7)
Qualified **Restaurant** Property: 2004-2007	10/23/04 - 12/31/07	15 Year / SL	N [3]	Y	N	N/A	Applicable to all improvements attached to building.	168(e)(7)

Bonus Depreciation Rates (inclusive dates)

9/11/01 - 5/5/03 [8]	30%
5/6/03 - 12/31/04 & 1/1/08 - 9/8/10 [8]	50%
9/9/10 - 12/31/11 [8]	100%
1/1/12 - 9/27/17 [8]	50%
9/28/17 - 12/31/22 [8, 10, 11]	100%
1/1/23 - 12/31/23 [8, 10, 11]	80%
1/1/24 - 12/31/24 [8, 10, 11]	60%
1/1/25 - 12/31/25 [8, 10, 11]	40%
1/1/26 - 12/31/26 [8, 10, 11]	20%

Footnotes:

1) NOT eligible for bonus if placed in service 1/1/2005 - 12/31/2007.

2) Retail Improvements are not eligible for bonus depreciation unless it meets the criteria for QLI.

3) Qualified Restaurant Property is eligible for bonus depreciation if placed in service 10/23/2004 - 12/31/2004.

4) Improvements that also meet the criteria for QLI are eligible for bonus depreciation. After 2015, improvements that also meet the criteria for QIP are eligible for bonus depreciation. Restaurant property that is acquired 9/28/2017-12/31/2017 is fully expensed (subject to written binding contract rules).

5) Improvements that meet the definition of Qualified Improvement Property and meet the definition of QLI , Qualified Retail Improvements, or Qualified Restaurant Property can be depreciated over a 15-year straight line period.

6) Eligible up to $250k from 2010 - 2015; 2016 and 2017 are subject to normal 179 expense cap.

7) Improvements that meet the definition of Qualified Improvement Property and meet the definition of QLI , Qualified Retail Improvements, or Qualified Restaurant Property qualify for the 179 Expense.

8) Long Production Period (QLIs over $1M and construction period exceeds 1 year) - can be placed in service one year after bonus normally expires. QLI (that is also LPP) started before 1/1/2012 can be entirely eligible for 100% bonus if completed during 2012. Bonus is applicable if LPP is started before 1/1/2027. Only pre-1/1/2027 basis is bonus eligible on any LPP.

9) Section 179 rules are modified to include certain improvements to buildings. See 179 Expense notes on page 2.

10) Bonus depreciation is available for used property placed in service after 9/27/17, however it is does not apply to the portion where the taxpayer previously had a depreciable interest.

11) Bonus is not available to taxpayers with floor plan financing (motor vehicle, boat, farm machinery) unless they are exempt from business interest limitations.

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Section 179 Expense Limitations (Dates, Dollar Limit, Reduction)		
01/01/11 - 12/31/17	\$500,000	\$2,000,000
1/1/18 onward [1]	\$1,000,000 [2]	\$2,500,000 [2]

Footnotes:

1) In 2018 onward, the Section 179 expense includes improvements to the following non-residential real property that are placed in service after the date such property was first placed in service: roofs; heating, ventilation, and air-conditioning; fire protection and alarm systems; and security systems. 179 expensing does not apply to certain non-corporate lessors. See Sec. 179(d)(5)

Qualified Section 179 property now includes depreciable tangible personal property used to furnish lodging (e.g. residential rental properties, hotels, etc).

2) Any taxable year beginning after 2018, the dollar amounts will be indexed for inflation.

Definitions:

3 Year Rule: The improvements must have been placed in service by any taxpayer more than three years after the date the building was first placed into service.

Leased Between Unrelated Party Qualification: Improvements must be made subject to a lease between unrelated parties (see code section 1504). Can be made by lessees, sub-lessees or lessors to an interior portion of a nonresidential building. Parties are related when there is more than 80% ownership shared between them.

Long Production Period Property: 168(k)(2)(B) - Must have a recovery period of at least 10 years, is subject to section 263A, has an estimated production period exceeding 2 years, or an estimated production period exceeding 1 year and a cost exceeding \$1,000,000.

Qualified leasehold improvement property (QLI)[A] 2001-2017 (A) Any improvement to an interior portion of a building which is nonresidential real property if— (i) such improvement is made under or pursuant to a lease (I) by the lessee (or any sublessee) of such portion, or (II) by the lessor of such portion, (ii) such portion is to be occupied exclusively by the lessee (or any sublessee) of such portion, and (iii) such improvement is placed in service more than 3 years after the date the building was first placed in service. (B) Certain improvements not included. Such term shall not include any improvement for which the expenditure is attributable to— (i) the enlargement of the building, (ii) any elevator or escalator, (iii) any structural component benefiting a common area, and (iv) the internal structural framework of the building.

Qualified retail improvement property[A] 2009-2017: Any improvement to an interior portion of a building which is nonresidential real property if— (i) such portion is open to the general public and is used in the retail trade or business of selling tangible personal property to the general public, and (ii) such improvement is placed in service more than 3 years after the date the building was first placed in service. QRIP shall not include any improvement for which the expenditure is attributable to— (i) the enlargement of the building, (ii) any elevator or escalator, (iii) any structural component benefitting a common area, or (iv) the internal structural framework of the building.

Qualified restaurant property[B] 2004-2008: an improvement to a building if— (A) Such improvement is placed in service more than 3 years after the date such building was first placed in service, and (B) more than 50 percent of the building's square footage is devoted to preparation of, and seating for on-premises consumption of, prepared meals.

Qualified restaurant property[B] 2009-2017 Any section 1250 property which is (i) a building or improvement to a building — if more than 50 percent of the building's square footage is devoted to preparation of, and seating for on-premises consumption of, prepared meals, and (ii) if such building is placed in service after December 31, 2008

Qualified improvement property[A] (QIP) 2016-2017: (A) 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. (B) Certain improvements not included. Such term shall not include any improvement for which the expenditure is attributable to— (i) the enlargement of the building, (ii) any elevator or escalator, (iii) the internal structural framework of the building.

Qualified improvement property[A] (QIP) 2018-onward: (A) Any improvement *made by the taxpayer* 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. (B) Certain improvements not included. Such term shall not include any improvement for which the expenditure is attributable to— (i) the enlargement of the building, (ii) any elevator or escalator, (iii) the internal structural framework of the building.

Other notes:
A) Tenant improvements that include costs for HVAC rooftop units are excluded from the definition of Qualified Leasehold Improvements (QLI), Qualified Retail Improvements, and Qualified Improvement Property (CCA 201310028)

B) Restaurant tenant improvements located within a multi-tenant building where 50 percent of the building's total square footage is not leased to restaurants, do not meet the definition of Qualified Restaurant Property.

KBKG REPAIR VS. CAPITALIZATION:
IMPROVEMENT DECISION TREE - FINAL REGULATIONS

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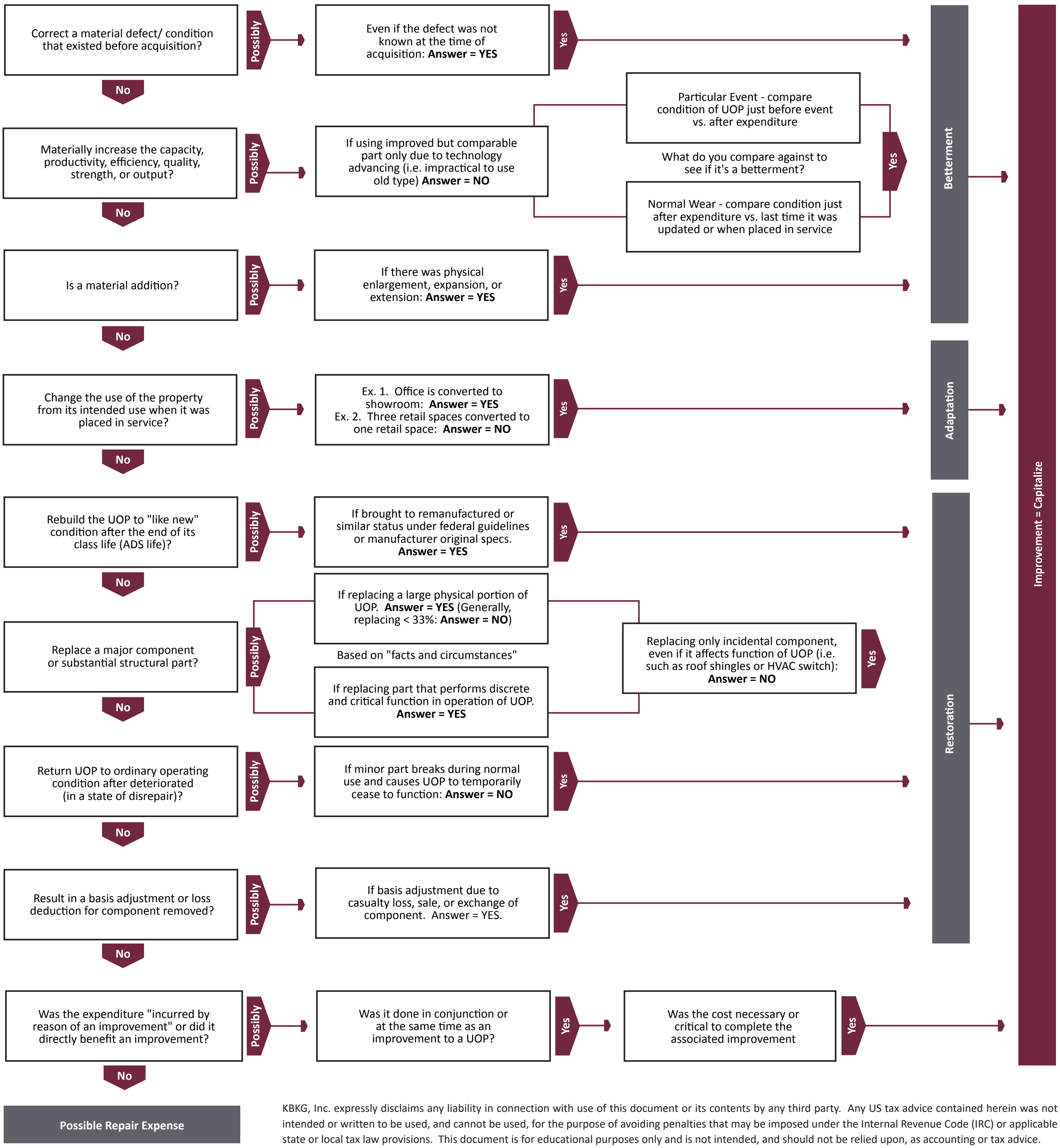
Considering the appropriate Unit of Property (UOP), does the expenditure: (Last Updated 3-20-2015)



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KBKG BUILDING UNIT OF PROPERTY & MAJOR COMPONENTS CHART

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This chart was created to help users identify building systems & typical "major components" in real estate assets. Replacing a major component is a capital expenditure while replacing an incidental component can be expensed

BUILDING STRUCTURE	LAND IMPROVEMENTS	HVAC SYSTEM	ELECTRICAL SYSTEM	PLUMBING SYSTEMS
• Roof system (membrane, insulation and structural supports) • Foundation • Other structural load-bearing elements, including stairs • Exterior wall system • Ceilings • Floors • Doors • Windows • Partitions • Loading docks	• Landscaping (shrubs, trees, ground cover, lawn, irrigation) • Storm drainage (inlets, catch basins, piping, lift stations) • Site lighting (pole lights, bollard lights, up lights, wiring) • Hardscape (retaining walls, pools, water features) • Site structures (gazebos, carports, monument signs) • Paving (roads, driveway, parking areas, sidewalks, curbing)	• Heating system (boilers, furnaces, radiators) • Cooling system (compressors, chillers, cooling towers) • Rooftop packaged units • Air distribution (ducts, fans, etc.) • Piping (heated, chilled, condensate water)	• Service and distribution (panel boards, transformers, switchgear, metering) • Lighting (interior and exterior building mounted) • Site electrical utilities • Branch wiring (outlets, conduit, wire, devices etc.) • Emergency power systems	• Plumbing fixtures (sinks, toilets, tubs etc.) • Wastewater systems (drains, waste and vent piping) • Domestic water (supply piping and fittings) • Water heaters • Site piping utilities

FIRE PROTECTION SYSTEM	SECURITY SYSTEM	GAS DISTRIBUTION SYSTEM	ESCALATORS	ELEVATORS
• Sprinkler systems (piping, heads, pumps) • Fire alarms (detection and warning devices, controls) • Exit lighting and signage • Fire escapes • Extinguishers and hoses	• Building security alarms • (detectors, sirens, wiring) • Building access and control systems	• Gas piping including to/from property line and other buildings	• Stairs and handrails • Drive systems (motors, truss, tracks)	• Elevator cars • Drive systems (motors, lifts, controls) • Suspension systems (counterweights, framing, guide rails)

* Building unit of property (UOP) rules apply to each building structure located on a single property.
** Building system components with a different tax life are separate units of property. For example, a cost segregation study separating HVAC into 5-year & 39-year categories for a restaurant creates two separate HVAC units of property.

Lessee of Building: Must apply the same units of property above but only to the portion of the building being leased.
Personal Property: UOP are parts that are "functionally interdependent" (i.e. placing one part in service is dependent on placing the other part in service).
Plant Property: UOP is each component that performs a discrete and critical function. Generally, each piece of machinery or equipment purchased separately.
Network Assets: UOP is determined by taxpayer's particular facts

Definitions

Plant Property: Machinery and equipment used to perform an industrial process such as manufacturing, generation, warehousing, distribution, automated materials handling, or other similar activities.
Network Assets: Railroad track, oil and gas pipelines, water and sewage pipelines, power transmission and distribution lines, telephone and cable lines; -- owned or leased by taxpayers in each of those respective industries.
Major Component: Part or combination of parts that performs a discrete and critical function in the operation of the unit of property.
Incidental Component: Relatively small, inexpensive, or minor part that performs a discrete and critical function for the UOP. Generally, not capitalized because of its size, cost, or significance.

KBKG is a specialty tax firm that works directly with CPAs and businesses to provide value-add solutions to our clients. Our engineers and tax experts have performed thousands of tax projects resulting in hundreds of millions of dollars in benefits. Our services include Research & Development Tax Credits, Cost Segregation, Repair vs. Capitalization 263(a) Review, IC-DISC, Green / Energy Tax Incentives (179D for Designers, 45L for Multifamily), and Fixed Asset Depreciation Review.

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BEFORE WE GET STARTED

Welcome and thank you for joining KBKG's live webinar

- We will start the live webinar at **1pm PT | 4pm ET**
- For the best audio, dial in using the telephone number provided
- Please enter questions into the Q&A module
- Download the slides from **KBKG.com/resources**
  - "Bonus Depreciation Update & Cost Segregation Tax Planning"

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BD 100:
Bonus Depreciation & QIP Update with Cost Segregation Tax Planning

Download PowerPoint slides from **KBKG.com/resources**

All attendees are muted.

The webinar will begin promptly at 1 PM Pacific / 4 PM Eastern

ADMINISTRATION

AUDIO

- For the best sound, you should dial in and use the provided telephone number for audio.

HANDOUT MATERIALS – Were provided before class.

- KBKG.com/resources

CPE (Continuing Professional Education – for CPAs only)

- Answer all polling questions during the webinar

QUESTIONS AND ANSWERS

- Please submit your questions and we will answer as many as time permits.

ABOUT KBKG

KBKG

- Established in 1999 with offices across the US.
- Provide turn-key tax solutions to CPAs and businesses.
- Performed thousands of tax projects resulting in over a billion dollars in benefits for our clients.
- Our team is a diverse mix of tax specialists, attorneys, and engineers from various disciplines. This combination of talent allows us to be the best at what we do and maximize results for our clients.
- A preferred provider for thousands of CPAs across the country.

SUMIT SHARMA, CCSP, ASA

- Principal at KBKG in the Fixed Assets / Cost Segregation practice
- Prior to KBKG, six (6) years as a manager in PwC Tax Project Delivery Group and five (5) years as a senior and staff engineer a boutique appraisal and cost segregation consulting firm
- Member of the American Society of Appraisers – Machinery & Technical Specialties
- Stevens Institute of Technology – Engineering Management
- ASCSP - Certified Cost Segregation Specialist

LEARNING OBJECTIVES

Bonus Depreciation:

- Understand new bonus rates and eligibility
- Discussion regarding proposed and final regulations issued in 2018 and 2019
- Recognize importance of placed in service and written binding contract dates
- Recovery Period and Bonus Updates as per CARES Act of 2020

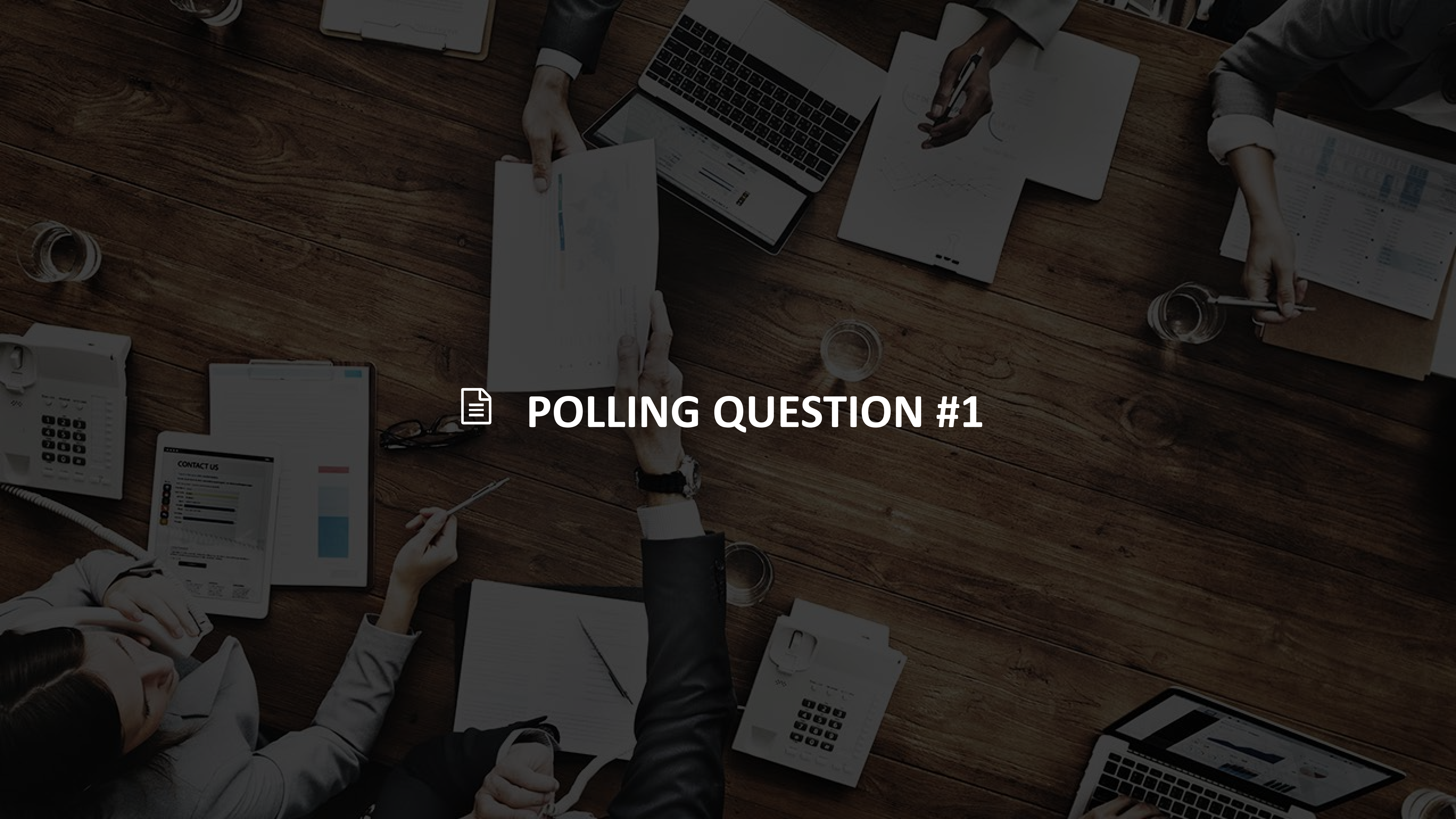
Qualified Improvement Property & CARES Act:

- Understand the QIP eligibility for current and previous years
- How to implement QIP corrections made within CARES Act
- Affect of QIP on Interest Limitations under 163(j)

Post CARES Act Tax Planning:

- Cost Segregation

POLLING QUESTION #1



BONUS DEPRECIATION

BONUS DEPRECIATION

Original Use guidance remains essentially the same as prior guidance under 1.168(k)

- General Bonus Depreciation Requirements:
  - Must be property of a specified type
  - Original use of the property must commence with the taxpayer or if used depreciable property must meet certain acquisition requirements
  - Must be placed in service by the taxpayer within the specific time period
    - Must be acquired by the taxpayer after 9/27/17
    - If acquired before 9/28/17 – property is subject to “old” bonus rules

Bonus on new AND USED PROPERTY starting in 2018

Bonus depreciation is MANDATORY

- Otherwise must formally elect out of bonus annually on a class by class basis

BONUS DEPRECIATION

Property of a Specified Type

- MACRS property with a recovery period of 20 years or less
- Certain computer software
- Water utility property
- Newly added “Qualified Film or Television Production Property”
- Newly added “Qualified Live Theatrical Production Property”

Property types removed post 12/31/2017

- Qualified Leasehold Improvement Property
- Qualified Restaurant Property
- Qualified Retail Property

Replaced by Qualified Improvement Property

BONUS DEPRECIATION

New **IRC Reg Section 1.168(k)-2** for property acquired and placed in service after 9/27/17

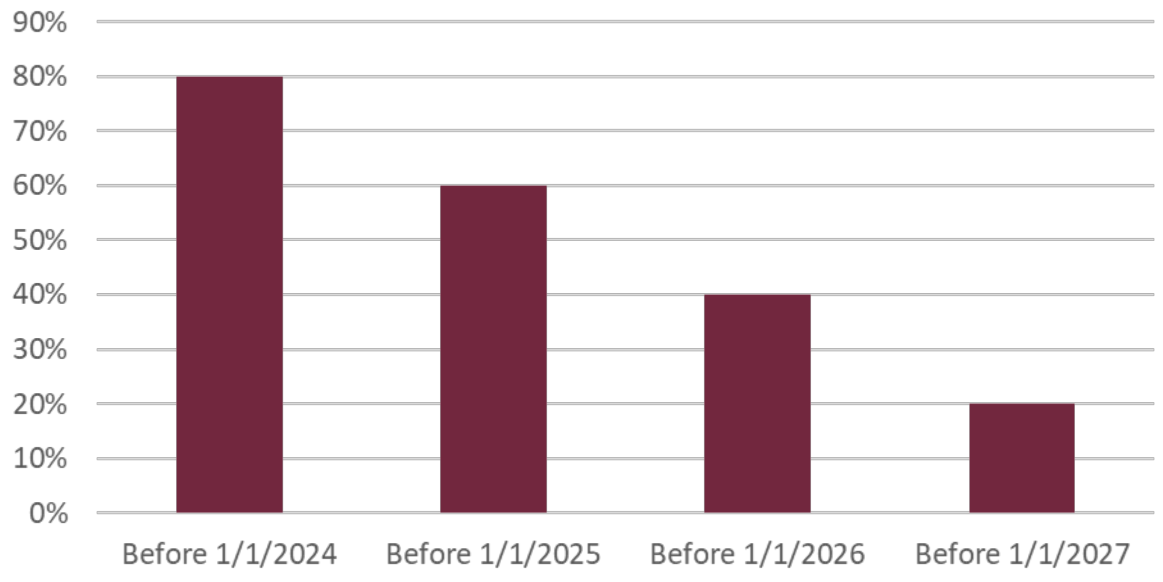
- Proposed regulations issued Aug 2018 (REG-104397-18)
- Final regulations issued Sept 2019 (T.D. 9874)
    - Written Binding Contract Rules
    - Used Property
    - Situations Where using ADS does not Prevent Bonus Deduction
- Additional proposed regulations issued Sept 2019 (REG106808-19)
- Final regulation issues Sept 2020 (T.D. 9916)
    - Business Floor Plan Financing
    - Used Property – 5 year look back rule
    - Written Binding Contract – No contracts & Purchase entities
    - Component Election

IRC Reg Section 1.168(k)-1 generally remains applicable for property acquired and placed in service prior to 9/28/17

BONUS DEPRECIATION

100% bonus rate applicable to assets **acquired and placed in service** after 9/27/17 and before 1/1/23

- Additional year to place in service long production period property and certain aircraft
  - **Long Production Period Property** is property:
    - With a recovery period of at least 10 years or is transportation property
    - Subject to 263A
    - With an estimated production period exceeding 1 year and production cost exceeding $1M
    - Must meet acquired and PISD rules
- Bonus now available for used property
- Phase down through 2026



BONUS DEPRECIATION

Used Property requirements include:

- The property was not previously used by the taxpayer or a predecessor
- The property must not be acquired from a related party, a component member of a controlled group, or in certain carryover basis transactions
  - Regulations note that if a member of a consolidated group acquires property from an unrelated group that acquired property from a different member of the consolidated group, bonus would not be eligible.
- Taxpayer or predecessor cannot have had depreciable interest in the property prior to acquisition
  - Predecessor defined as:
    - a transferor of an asset to a transferee in a transaction to which section 381(a) applies;
    - a transferor of an asset to a transferee in a transaction in which the transferee's basis in the asset is determined, in whole or in part, by reference to the basis of the asset in the hands of the transferor;
    - a partnership that is considered as continuing under section 708(b)(2) and section 1.708-1; the decedent in the case of an asset acquired by an estate; or
    - a transferor of an asset to a trust.

BONUS DEPRECIATION

Used Property requirements include:

- Property previously owned by taxpayer
  - 5-Year Lookback Rule
- Series of Related Transaction Rules
  - 5-Year Lookback Rule

Component Election:

- Special election to claim 100% bonus for certain components acquired or self-constructed after 9/27/17, that are part of a larger self-constructed property (where the construction began before 9/28/17)
  - No longer placed-in-service requirement
  - Larger self-constructed property
    - MACRS property with recovery period 20yrs or less, comp soft, water utility, QIP
    - “qualified property” under 2019 final regs without regard to acquisition date or WBC

BONUS DEPRECIATION

Property of a Specified Type – SPECIFICALLY EXCLUDED from bonus applicability

- Property **required** to be depreciated under the alternative depreciation system (ADS)
  - Used predominately outside of the U.S.
  - Tax exempt use property
  - Tax exempt bond financed property

- Property primarily used in certain public utility trades or businesses
  - Applies to property acquired after 9/27/17 and placed in service in tax years beginning on or after 1/1/18

- Section 754 Elections
  - This step up can receive the new bonus depreciation if it's a new partner coming in (property was not used by the taxpayer before)
  - Step-up on death is specifically excluded from the new bonus depreciation

BONUS DEPRECIATION

Property of a Specified Type – SPECIFICALLY EXCLUDED from bonus applicability

- Property used in a trade or business that has floor plan financing (e.g., automobile dealerships)
  - 2019 regs clarify that taxpayers leasing property to a trade or business with floor plan financing indebtedness or a rate-regulated utility may still claim bonus provided the lessor is not described in Sec. 168(k)(9)(A) or (B) and all other requirements are met
    - ❖ Good news for lessors or real estate holding companies that lease the property to operating entity

BONUS DEPRECIATION

Placed in Service Requirements

- In order to qualify for 100% bonus depreciation, the property must be placed in service after 9/27/17 and before 1/1/23 (except for LPPP, which is 1/1/24).
- Current law is generally the same as prior placed in-service rules outlined in 1.168(k)-1(b)(5)
  - For new construction buildings, we generally look to the date the certificate of occupancy was issued
  - For acquired property, we look to the "ready and available" standard
- Regulations contain specific rules for qualified film or television productions and qualified live theatrical productions

BONUS DEPRECIATION

Acquisition Requirements

Used property – Acquired existing property

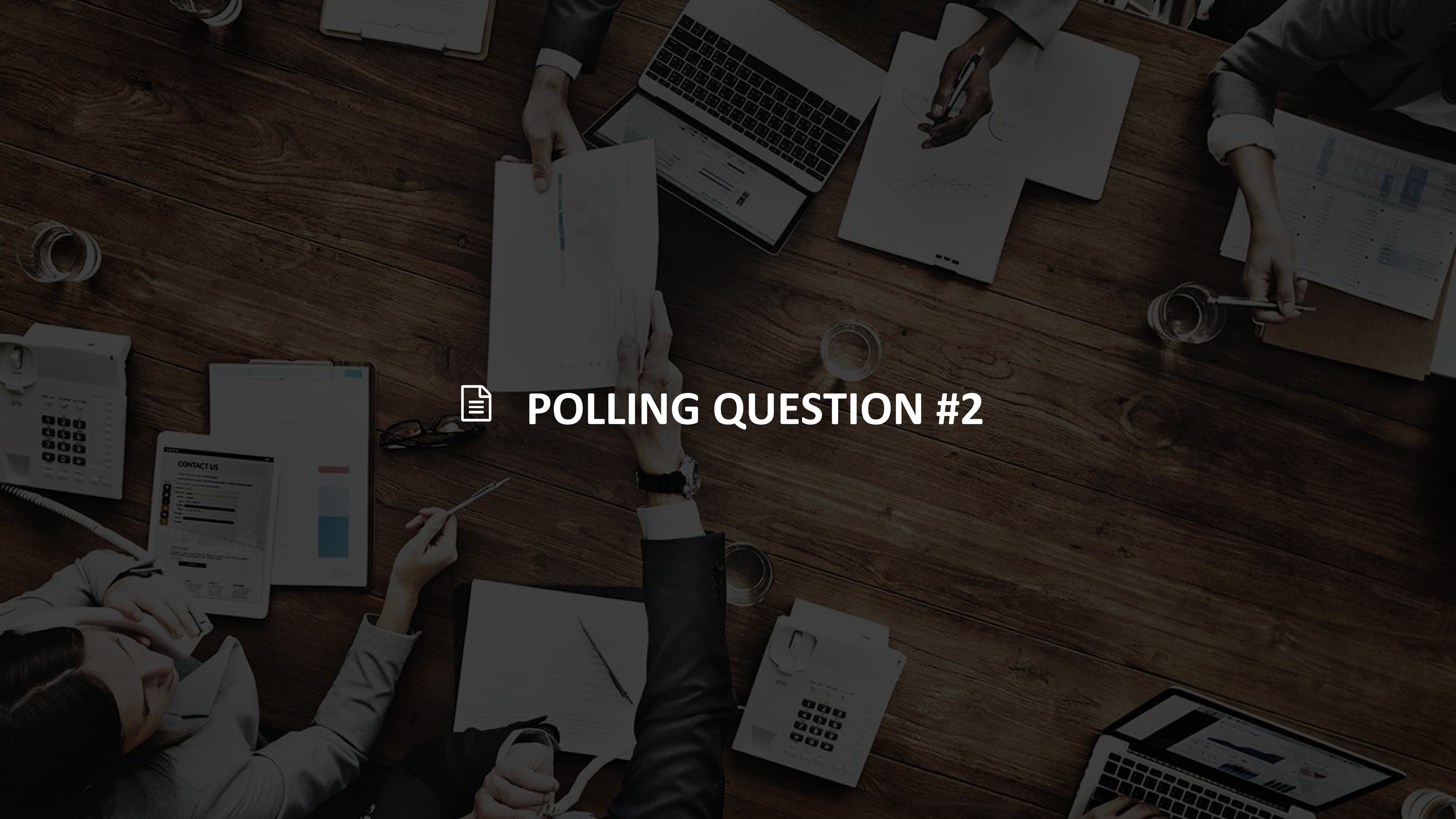
- Property will be treated as "acquired" as of the later date of the following:
  - the date on which the contract is entered;
  - the date on which the contract is enforceable under state law;
  - If the contract has one or more cancellation periods, the date on which all cancellation periods end; or
  - if the contract has one or more contingency clauses, the date on which all conditions subject to such clauses are satisfied.

BONUS DEPRECIATION

Acquisition Requirements (Continued)

New property – Self constructed property (either by Taxpayer or 3rd Party)

- Property is acquired when the taxpayer begins manufacturing, constructing, or producing the property
- Optional safe harbor permits a taxpayer to determine the acquisition date as the date on which more than 10% of total construction cost has been **incurred** ("physical work of a significant nature" completed)
  - Soft costs such as architectural, engineering, design fees are not considered in the safe harbor test



POLLING QUESTION #2

QUALIFIED IMPROVEMENT PROPERTY & CARES ACT

QUALIFIED IMPROVEMENT PROPERTY

Qualified Improvement Property is defined as:

- Sec. 1250 interior improvements to a non-residential property,
- "Made by the taxpayer" after the building was originally placed in service,
- Non-structural in nature,
- Not an elevator or an escalator,
- Not an expansion of the building

QIP fixed from 39 to 15-year property

- For QIP placed in service 1/1/2018 and later
- Bonus eligible

KBKG Insight!

- QIP placed in service between 9/27/2017 and 1/1/2018 is eligible for 100% bonus depreciation, even though it has a 39-year life.

QUALIFIED IMPROVEMENT PROPERTY

Qualified Improvement Property & CARES Act Considerations:

- MACRS tax classification:
  - 39-year to 15-year GDS recovery period
  - 40-year to 20-year ADS recovery period
- Added clarifying language "Made by the taxpayer"
  - Taxpayer classifying and depreciating property as QIP, must have completed the improvements

Qualified Improvement Property *history*:

39yr w/ Bonus → 39yr w/o Bonus → 15yr w/ Bonus

1/1/2016 to 12/31/2017 – QIP 39yr , 50% bonus eligible

9/27/2017 to 12/31/2017 – QIP 39yr , 100% bonus eligible (if acquired & PIS during period)

1/1/2018 to 12/31/2019 – QIP 39yr , not bonus eligible (**AS PER TCJA**)

1/1/2018 to 12/31/2022 – QIP 15yr , 100% bonus eligible (**CORRECTED AS PER CARES ACT**)

QUALIFIED IMPROVEMENT PROPERTY

Qualified Improvement Property & CARES Act Considerations:

- Sec. 163(j) election out of business interest expense limitation requires real property depreciate using ADS class lives
- State tax conformity varies:
  - Many states do not conform to Federal bonus depreciation rules
  - Certain states do not conform to Federal 15yr MACRS tax life for QIP

QUALIFIED IMPROVEMENT PROPERTY

Qualified Improvement Property & CARES Act Considerations:

- THREE OPTIONS: Taxpayers permitted to…
  1) File an amend return
  2) File a superseded return, administrative adjustment request (AAR) or
  3) File an accounting method change Form 3115 to correct depreciation

- **Revenue Procedure 2020-25**
  - DCN #244 – "QIP fix"
    - Bypasses certain scope limitations of DCN #7
    - Reduced filing requirement
      1. Page 1, Identification section (above Part I) and signature section;
      2. Part I;
      3. Part II, all lines except lines 11, 12, 13, 15, 16, 17, and 19;
      4. Part IV, all lines; and
      5. Schedule E, all lines except lines 1, 4b, 5, and 6.

QUALIFIED IMPROVEMENT PROPERTY

Qualified Improvement Property & CARES Act Considerations:

- **Revenue Procedure 2020-25**
  - DCN #245 – "Election fix"
    - Limited time to change or revoke elections for ADS, electing out of bonus and electing 50% vs. 100% bonus on assets acquired in 2017

Code Section	Election Type	Process for Late Election	Process to Revoke
Sec. 168(g)(7)	Election to depreciate any class of property under the alternative depreciation system ("ADS")	Amending Return; Form 3115	Amending;
Sec. 168(k)(7)	Election out of bonus depreciation for any class of qualified property placed in service during the taxable year.	Amending Return; Form 3115	Amending Return; Form 3115
Sec. 168(k)(10)	Election to claim 50%, instead of 100% bonus depreciation for the tax year that includes September 28, 2017;	Amending Return; Form 3115	Amending Return; Form 3115
Sec. 168(k)(5)	Election for farming businesses to apply special additional depreciation rules to one or more plants	Amending Return; Form 3115	Amending Return; Form 3115

QUALIFIED IMPROVEMENT PROPERTY

Qualified Improvement Property & CARES Act Considerations

- **Revenue Procedure 2020-22**
  - Revocation of Sec. 163(j) election
- **Revenue Procedure 2020-23**
  - Amend Tax Returns or AAR
- **Revenue Procedure 2020-50**
  - Procedural guidance to apply 2020 final regs / 2019 final regs / combo 2019 final & proposed regs
  - DCN #246 & #247
- **KBKG Resource Library**
  - Instructions for Form 3115 (Rev. December 2018)
  - IRS Form 3115 – **SAMPLE** DCN #244 & #245
  - IRS Form 3115 Attachment Statement – **DRAFT SAMPLE** DCN #244 & #245

QUALIFIED IMPROVEMENT PROPERTY

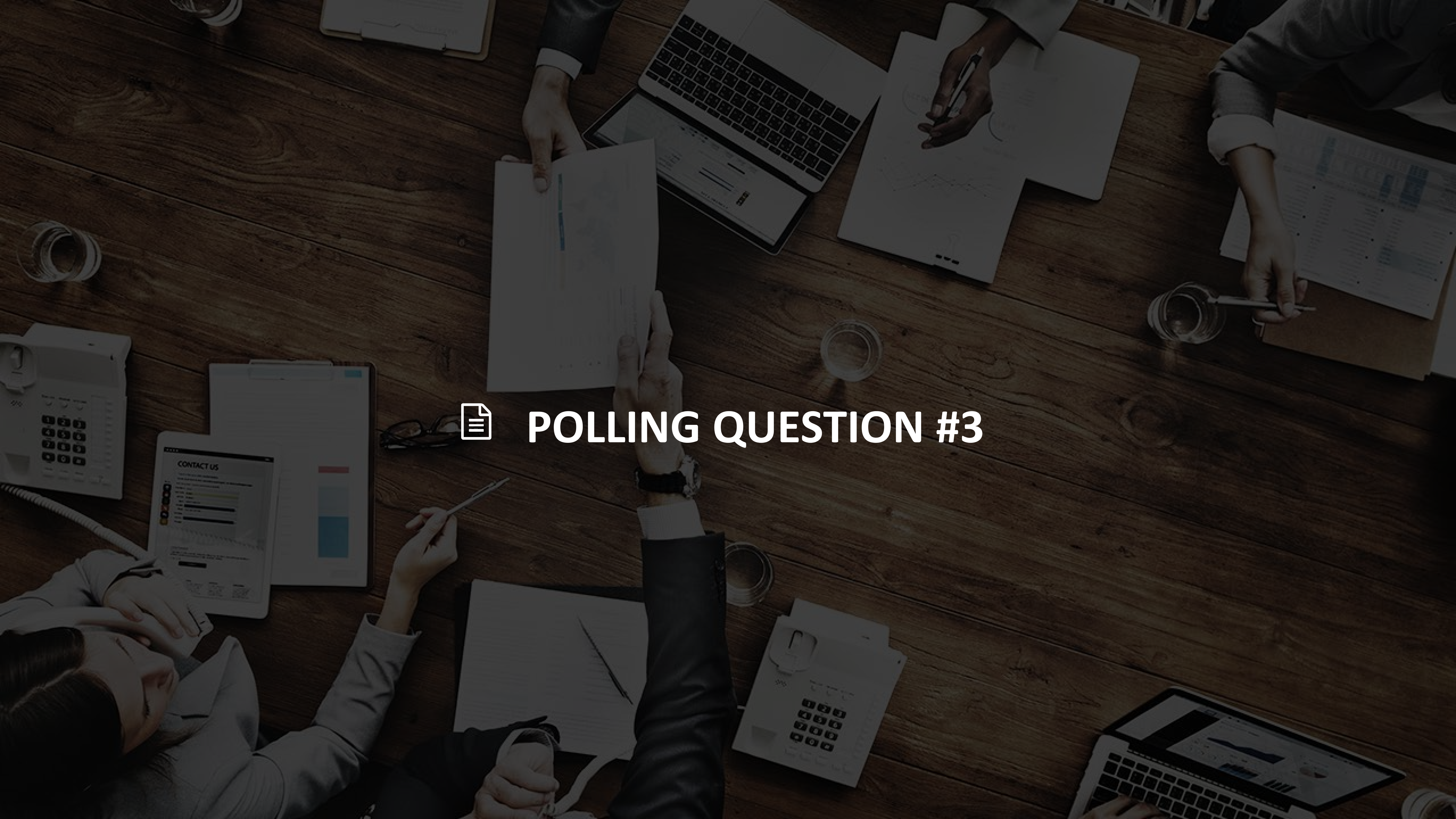
Qualified Improvement Property - EXAMPLE

- Taxpayer acquires a commercial retail building in June 2019 for $2M. The building was originally constructed in 2010.
  - Taxpayer spends $1M in 2020 on a renovation improvement project that includes:
    - $100k for rooftop HVAC units, $50k for new windows, $30k for interior seismic upgrades (39yr structural real property, no bonus)
    - $70k for interior HVAC ductwork, $200k for new electric switches/outlet/lights, $100k for new bathroom plumbing, $250k for drywall, flooring and other interior finishes(15yr QIP, 100% bonus)
    - $150k for decorative finishes, trade fixtures and millwork (5yr personal property, 100% bonus)
    - $50k for exterior site improvements (15yr land improvement property, 100% bonus)

BONUS QUALIFIED IMPROVEMENT CHART

Qualified Improvements - Depreciation Quick Reference (updated 3/30/2020)

	Applicable PIS Dates (inclusive)	MACRS GDS Recovery Period	Bonus Dep Eligible	3 Year Rule	Unrelated Parties Rule	179 Expense Eligible	Important Notes	Code Section
Qualified **Improvement** Property (QIP): 2018 - Onward	01/01/18 - onward	15 Year / SL	Y	N	N	Y [9]	Applies to interior common areas. Building can be owner occupied. No 3-year rule. See exclusions in definition.	168(e)(6)
Qualified **Improvement** Property (QIP): 2016 - 2017	1/1/16 - 12/31/17	39 [5] Year / SL	Y	N	N	N [7]	Applies to interior common areas. Building can be owner occupied. No 3-year rule. See exclusions in definition.	168(k)(3)
Qualified **Leasehold** Improvements (QLI): 2004 - 2017	10/23/04 - 12/31/17	15 Year / SL	Y [1]	Y	Y	2010 - 2017 [6]	Landlord or lessee can make the interior improvement. See exclusions in definition.	168(e)(6)
Qualified **Leasehold** Improvements (QLI): 2001 - 2004 Partial	9/11/01 - 10/22/04	39 Year / SL	Y	Y	Y	N/A	39 year QLI qualifies for Bonus. Landlord or lessee can make the interior improvement. See exclusions in definition.	168(e)(6)
Qualified **Retail** Improvement Property: 2016 - 2017	1/1/16 - 12/31/17	15 Year / SL	Y	Y	N	2010 - 2017 [6]	Building can be owner occupied. See exclusions in definition.	168(e)(8)
Qualified **Retail** Improvement Property: 2009-2015	1/1/09 - 12/31/15	15 Year / SL	N [2]	Y	N	2010 - 2017 [6]	Building can be owner occupied. See exclusions in definition.	168(e)(8)
Qualified **Restaurant** Property: 2009 - 2017	1/1/09 - 12/31/17	15 Year / SL	N [4]	N	N	2010 - 2017 [6]	Encompasses the entire building structure as well as interior costs. Can be an acquired building.	168(e)(7)
Qualified **Restaurant** Property: 2008	1/1/08 - 12/31/08	15 Year / SL	Y	Y	N	N/A	Applicable to all improvements attached to building.	168(e)(7)
Qualified **Restaurant** Property: 2004-2007	10/23/04 - 12/31/07	15 Year / SL	N [3]	Y	N	N/A	Applicable to all improvements attached to building.	168(e)(7)



POLLING QUESTION #3

TAX PLANNING – COST SEGREGATION

- One of the most common tax planning tools for anyone with real estate

Primary goal: segregate costs into their appropriate MACRS tax classification and maximize recovery in shorter periods

  - Special piping and fixtures (5 or 7 years)
  - Certain finish carpentry and millwork (5 or 7 years)
  - Special electrical connections (5 or 7 years)
  - Certain exterior land improvements (15 or 20 years) and so on…

Secondary goal: establishes the depreciable tax value for each major building component

  - Compliance with Unit of Property definitions in TPR
  - Assists with claim of "retirement loss" or "partial disposition" deduction

TAX PLANNING – COST SEGREGATION

- Performed in year purchased – simply report the allocations on depreciation schedule
- Allows taxpayer to take full advantage of the bonus rules
- Can done anytime after the building is purchased.
    - No amended tax returns.
    - File a Form 3115 and claim any missed deductions in year performed.
    - Allows tax preparers to plan when to use deductions
- Old Rule of Thumb: viable if building basis is > $750K (excluding land)
- Modified Rule of Thumb: can use online software for residential properties if building basis > $150k

COST SEGREGATION

Transaction Types

- Acquired Property*
- New Construction*
- Remodeled Property*
- Build-outs*
- Condos*

→

MACRS - GDS

39 - Year Property

27.5 - Year Property

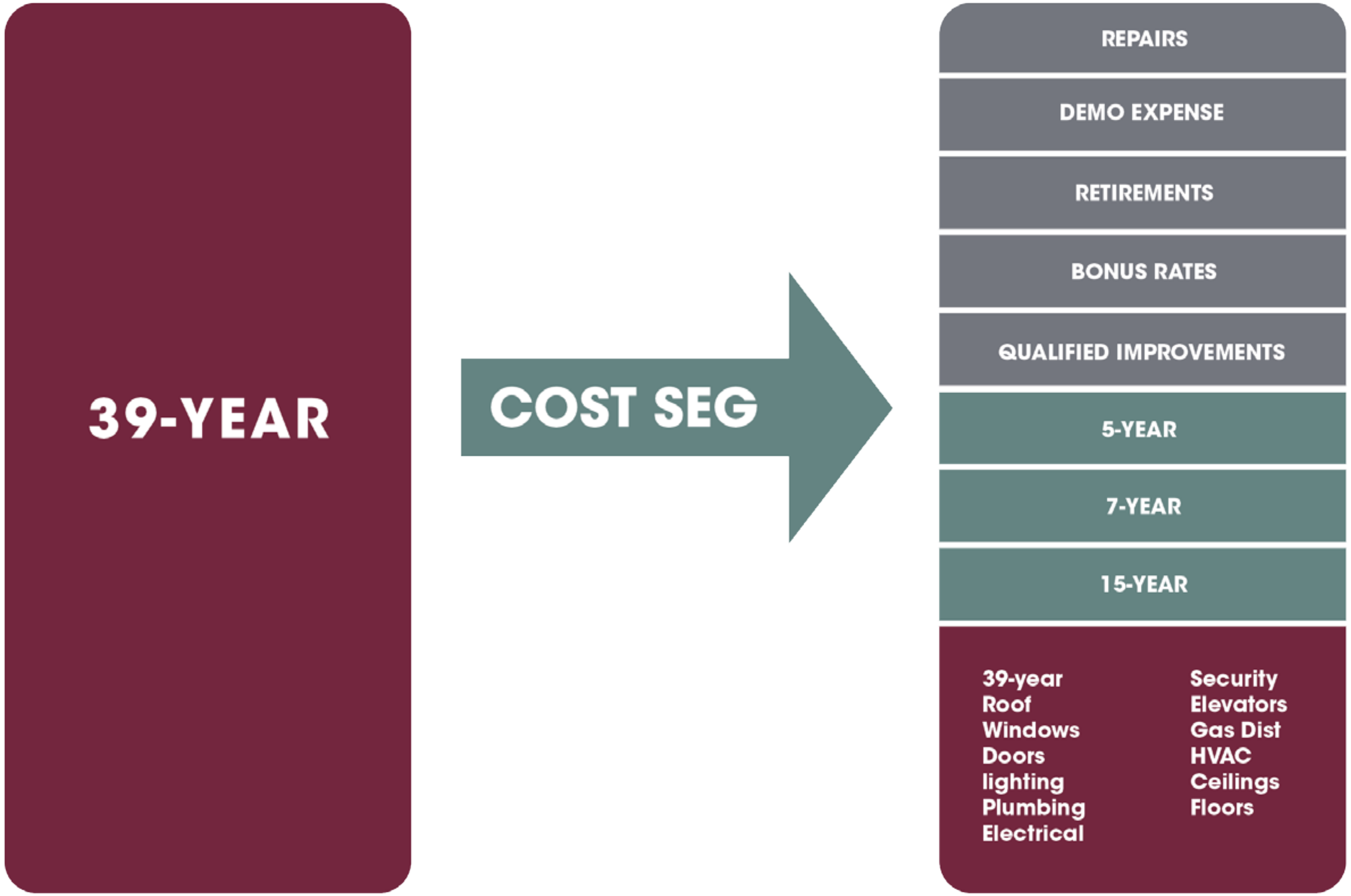
15 - Year Property

7 - Year Property

5 - Year Property

* (as far back as 1987)

KBKG ENHANCED COST SEGREGATION STUDIES



TAX PLANNING – COST SEGREGATION

State tax conformity

- Most states don’t follow federal bonus depreciation and either disallow or modify it
- Some states don’t provide 15-year recovery for QIP

Mandatory ADS

- Sec. 163(j) election required ADS depreciation and no bonus for real property
- Personal property segregated can continue to follow accelerated GDS rates and bonus eligible

TAX PLANNING

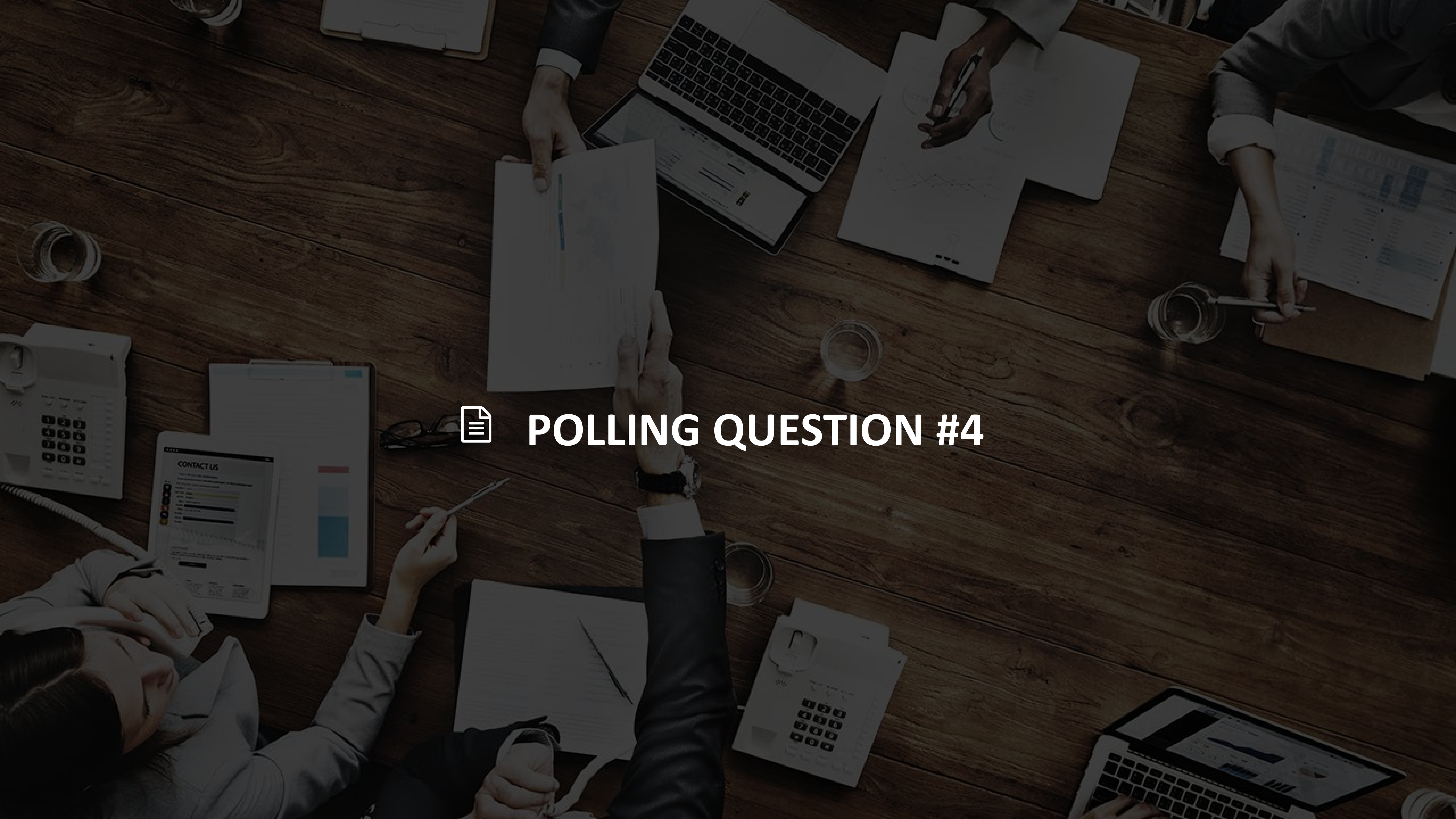
Taxpayers should immediately consider all opportunities to generate <u>deductions</u>, such as:

- Cost segregation studies
- Accelerating the depreciation of misclassified Qualified Improvement Property (QIP)
- Sec. 179D energy efficient building deductions
- 45L Tax Credits
- R&D Tax Credits
- International Transfer Pricing corrections

EVALUATING A COST SEGREGATION PROVIDER

- What are the real capabilities of the cost segregation provider you are using? There is a big difference in technical knowledge.
- The value of Cost Seg is not just about breaking a building down into components!
- Many low cost or small providers don't have the resources to stay on top of all the tax issues.
- Is your provider advising you on:
  - Situational bonus depreciation rules such as Long Production Period Property, RP 2011-26 rule to componentize your property?
  - Repair vs. Capitalization Regulations?
  - Energy **credits** for your multi-family clients under IRC 45L?
  - Energy tax incentives for your commercial building developers?
  - Tax Considerations of Cost Seg?
  - Property Tax Issues?

POLLING QUESTION #4



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