ABOUT KBKG

KBKG
SOLUTIONS FOR TAX PROFESSIONALS AND BUSINESSES
Tax Credits • Incentives • Cost Recovery

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.

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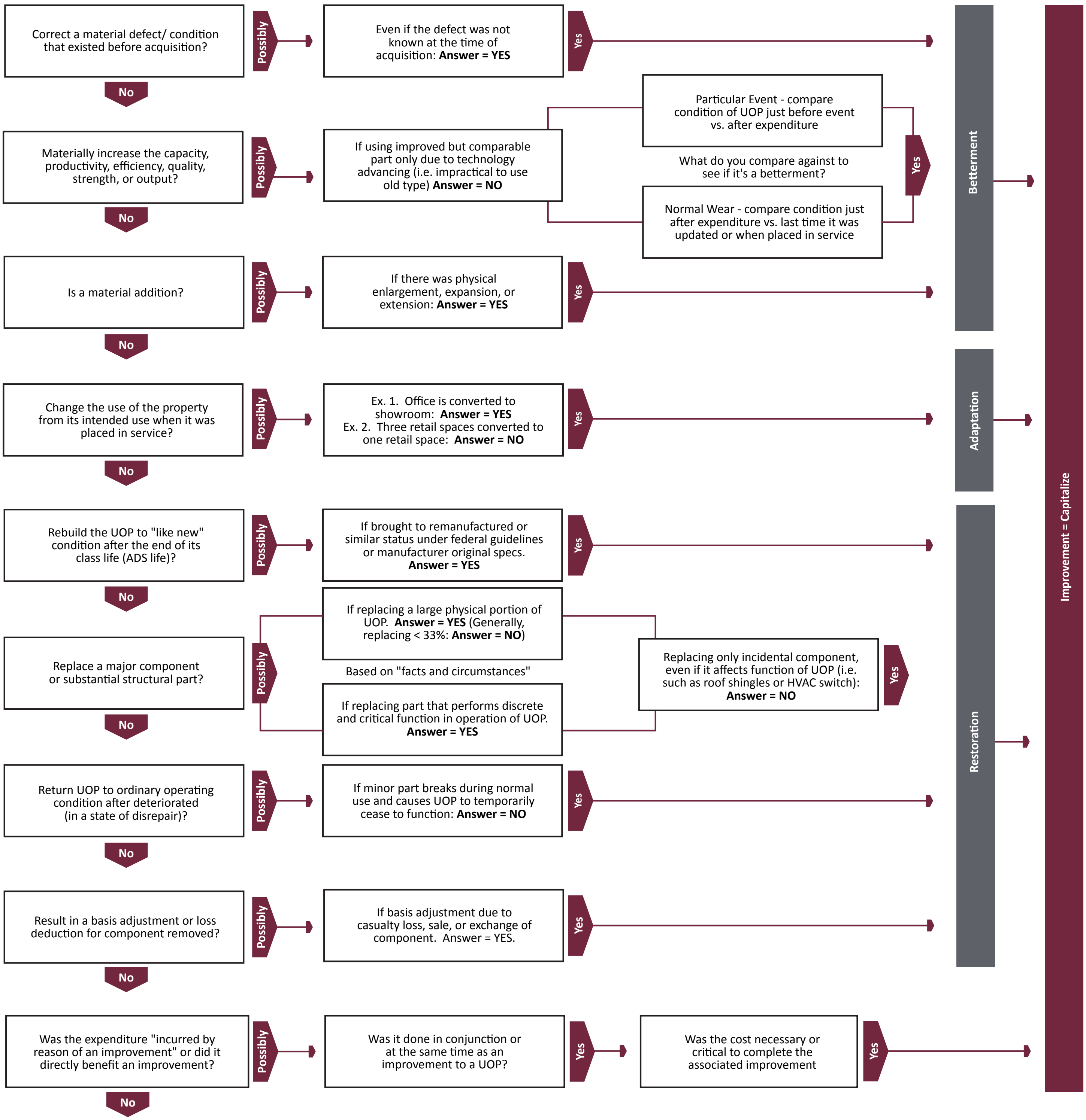
Considering the appropriate Unit of Property (UOP), does the expenditure: (Last Updated 3-20-2015)



Possible Repair Expense

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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.

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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**
    - "Cost Segregation Software Tools & Tax Strategies"

CT 100:

Cost Segregation Software Tools & Tax Strategies:

Residential Cost Segregator® & KBKG Partial Disposition Calculator

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

All attendees are muted.

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

ADMINISTRATIVE

AUDIO

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

HANDOUT MATERIALS

- 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 U.S.
- Provide turn-key tax solutions to tax preparers and businesses.
  - Cost Segregation, R&D Tax Credits, R&D Audit Defense, Energy Tax Incentives, Repair vs. Capitalization Studies, Transfer Pricing, IC-DISC Export Incentives
- Performed thousands of tax projects resulting in a billion dollars in benefits for our clients.
- Diverse mix of tax specialists, attorneys, energy consultants and engineers from various disciplines
- A preferred provider for thousands of CPAs across the country.

CT 100:

Cost Segregation Software Tools & Tax Strategies

Ryan Lehnau

Manager – Cost Segregation

Ryan Donahue

Senior Engineering Consultant – Cost Segregation

LEARNING OBJECTIVES

Cost Segregation Overview

- Benefits of a study
- Tax considerations

Cost Segregation Tax Considerations & Strategies

- Estate planning
- Retirements and partial dispositions

Cost Segregation Software Tools

- Residential Cost Segregator®
- KBKG Partial Disposition Calculator
- Using our software tools to generate value for clients and revenue for your tax practice.

POLLING QUESTION #1

COST SEGREGATION

Primary goal:

Identify property-related costs that can be depreciated faster (5-, 7- or 15-year recovery)

- Taking tax deductions earlier increases cash flow
- Creates a time value of money benefit by having cash now vs. later

Secondary goal:

Identify the depreciable tax basis for major building components that are likely to be replaced

- Examples include the roof, windows, doors, bathroom fixtures, and HVAC
- Tax preparers need this information to claim a "retirement loss" or "partial disposition" deduction for the remaining depreciation left on the retired component

http://www.kbkg.com/cost-segregation-audit-guide

COST SEGREGATION

- Acquired property
- New construction
- Remodeled property
- Interior improvements

→

MACRS - GDS

39 - Year Property

27.5 - Year Property

15 - Year Property

7 - Year Property

5 - Year Property

EXAMPLE: RETAIL BUILDING CURRENT YEAR ACQUISITION

- $3 million retail building
- Without a Cost Segregation Study the costs are depreciated straight line over 39 years.

With a Cost Segregation Study

Benefits reclassifying from 39 Year Life

$330,000 depreciated over 5 years

$360,000 depreciated over 15 years

Increased deductions first 5 years: $610,000

Increased cash flow first 5 years: $237,000

COST SEGREGATION – TAX PLANNING TOOL

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

- Performed in year purchased – simply report the allocations on depreciation schedule

Cost segregation can be 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

Without software - typically only makes sense to hire a CCSP engineer for buildings with a building tax basis over $750,000 (estimate cost $5K - $10K)

For more information on various tax planning strategies for cost segregation, please see our updates at: **http://kbkg.com/category/cost-segregation**

TAX CONSIDERATIONS

- Depreciation deductions will reduce AMT
- On new construction, bonus depreciation can apply to reclassified items in a cost segregation study which magnifies the benefit
- Unused deductions carry forward
- When building is sold, the taxpayer may need to recapture depreciation taken on personal property
- Accounting method changes are addressed with IRS Form 3115
- Passive activity rules can offset the benefits of cost segregation
- 1031 exchange rules need to be considered

TAX REFORM

100% bonus depreciation is applicable for assets acquired after September 27, 2017 through 2022

- Rate phases down by 20% each year after that
- Bonus is now available for **used property**
- Taxpayers can opt to use or elect out of completely

Real Property Trade or Business must use the Alternative Depreciation System (ADS) if they elect out of the limitation on interest deductions.

- Not applicable to businesses with less than $25M in revenue (avg. last 3 years)
- 40-year recovery on commercial buildings; 30-year on residential rental
- Bonus depreciation is not available when ADS is mandatory
- Real Property Trade or Business is defined in Section 469(c)(7)

TAX REFORM

Electing out of Interest Limitations – Does ADS apply to 15-year land improvements?

- For those electing out of interest limitations, they must use ADS recovery periods for non-residential real property and residential rental property.
- Mandatory ADS is **not** applicable to tangible personal property, so it is still 5- and 7-year property and bonus eligible.
- Land improvements are 15-year property and are **not** included in the definitions of non-residential real property or residential rental property. Therefore, land improvements remain 15-year property and bonus eligible.

Opting out of 100% bonus – taxpayers can opt to use or elect out completely.

TAX REFORM

Written Binding Contract Rule - Acquisitions (After September 27th, 2017 Bonus Eligible)

- There are "written binding contract" (WBC) rules that disallow bonus depreciation if a building went into contract before September 28, 2017.

Example –

Client property acquisition closes Oct. 1 but entered into contract Sept. 1. It's likely they are not eligible for any bonus depreciation on their used property.

- Final regulations provide guidance of the acquisition date of used property
- WBC rules were put in place back in 2001 when bonus depreciation was first enacted.

TAX REFORM

Section 754 Elections – This step up can receive the new bonus depreciation.

- As long as it's a new partner coming in (property not used by the taxpayer before).

Step up on death -

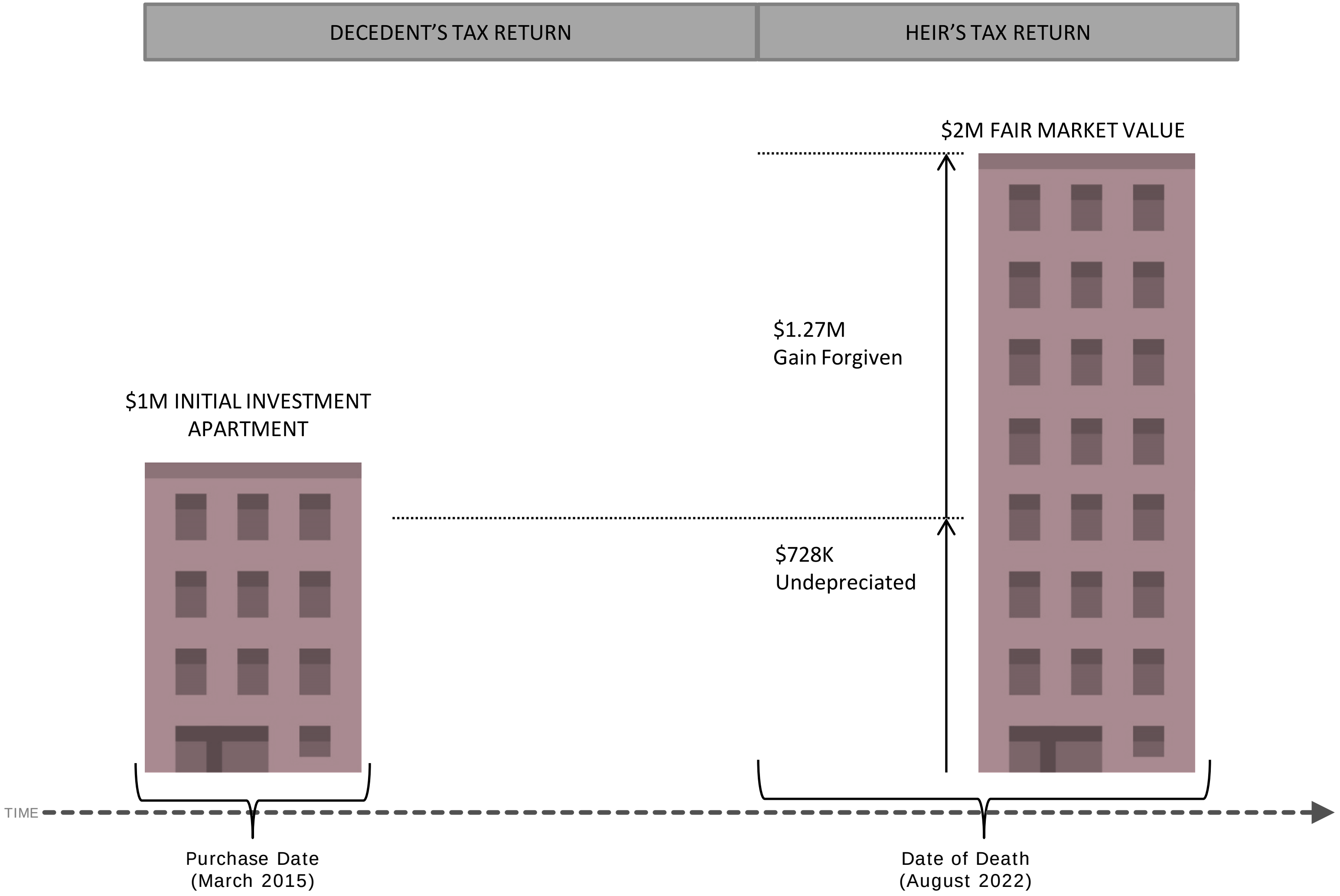
- Step up on death is specifically excluded from the new bonus depreciation where property received from a decedent.

POLLING QUESTION #2

COST SEGREGATION AND ESTATE PLANNING: BACKGROUND

- When a building owner dies and a property is inherited, any gains built up during the decedent’s life are forgiven.
- Beneficiary receives a “step up,” which means the property’s tax basis is reset to fair market value on the date of death and depreciation starts all over.
- This provides an opportunity to apply a cost segregation study to the decedent’s pre-stepped-up basis creating a permanent tax deduction.

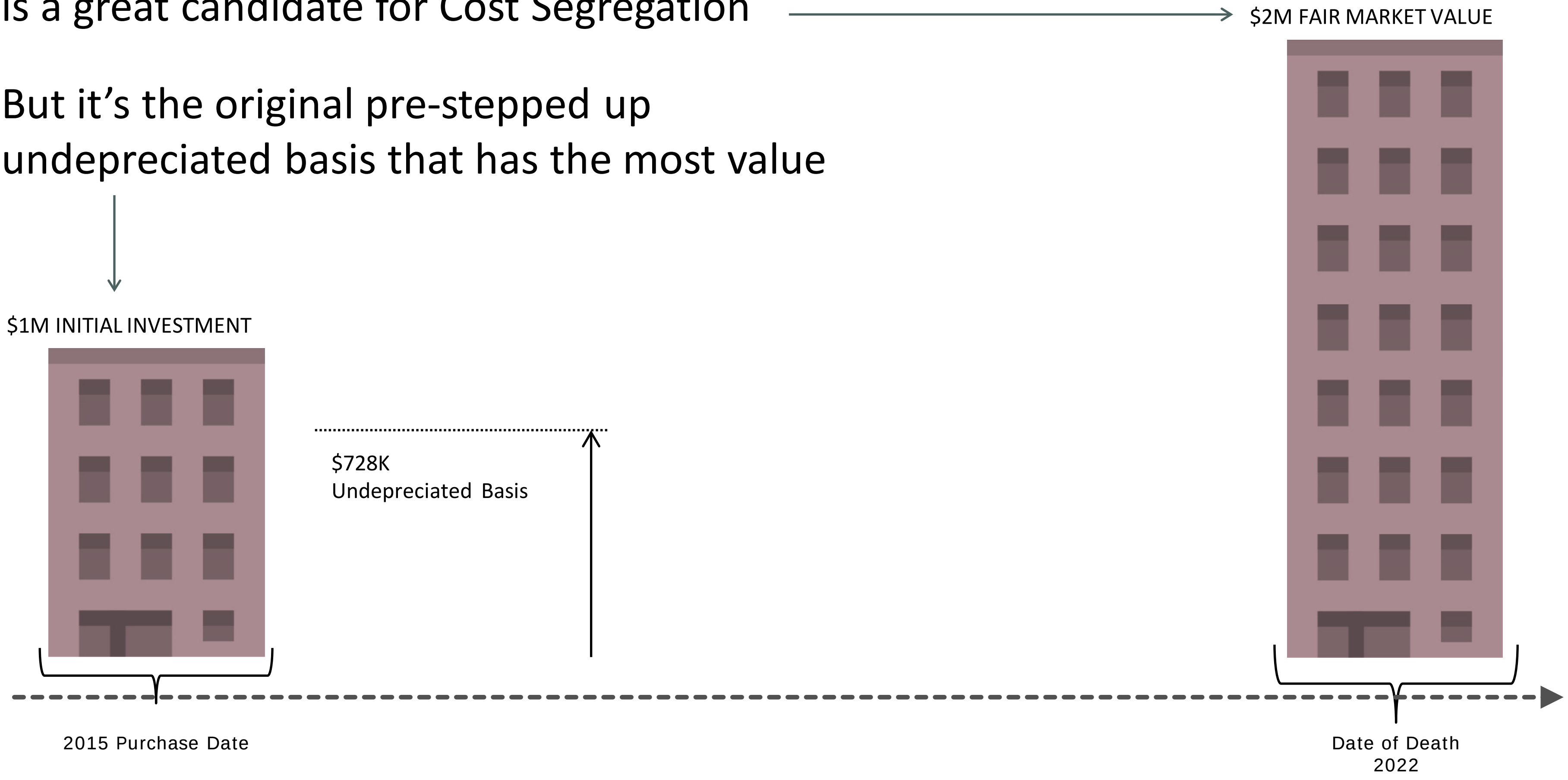
DECEDENT’S GAIN FORGIVEN



HEIR STARTS DEPRECIATION OVER

Most tax preparers already know this is a great candidate for Cost Segregation

But it's the original pre-stepped up undepreciated basis that has the most value

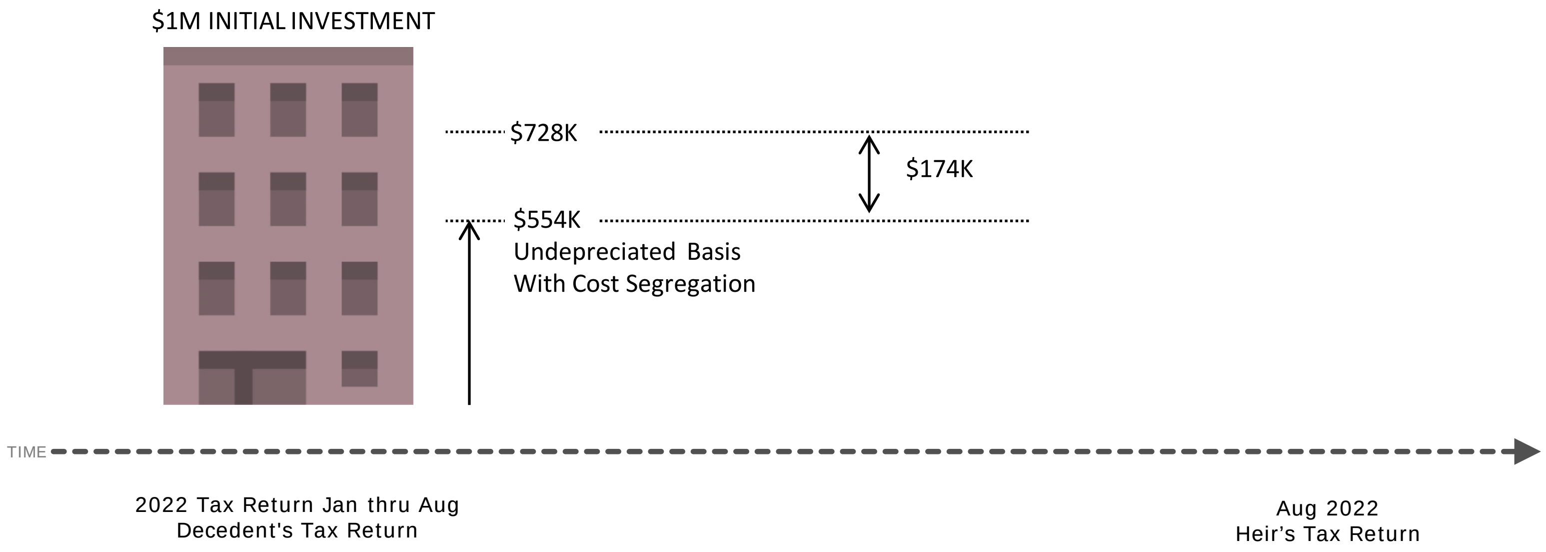


CASE STUDY 1

COST SEGREGATION ON ORIGINAL PRE-STEPPED-UP BASIS

DOD - August 2022
Must file tax return for income generated Jan thru Aug 2022

Cost Seg done and Form 3115 filed:
Generates $174,000 catch up deduction (Sec. 481(a))

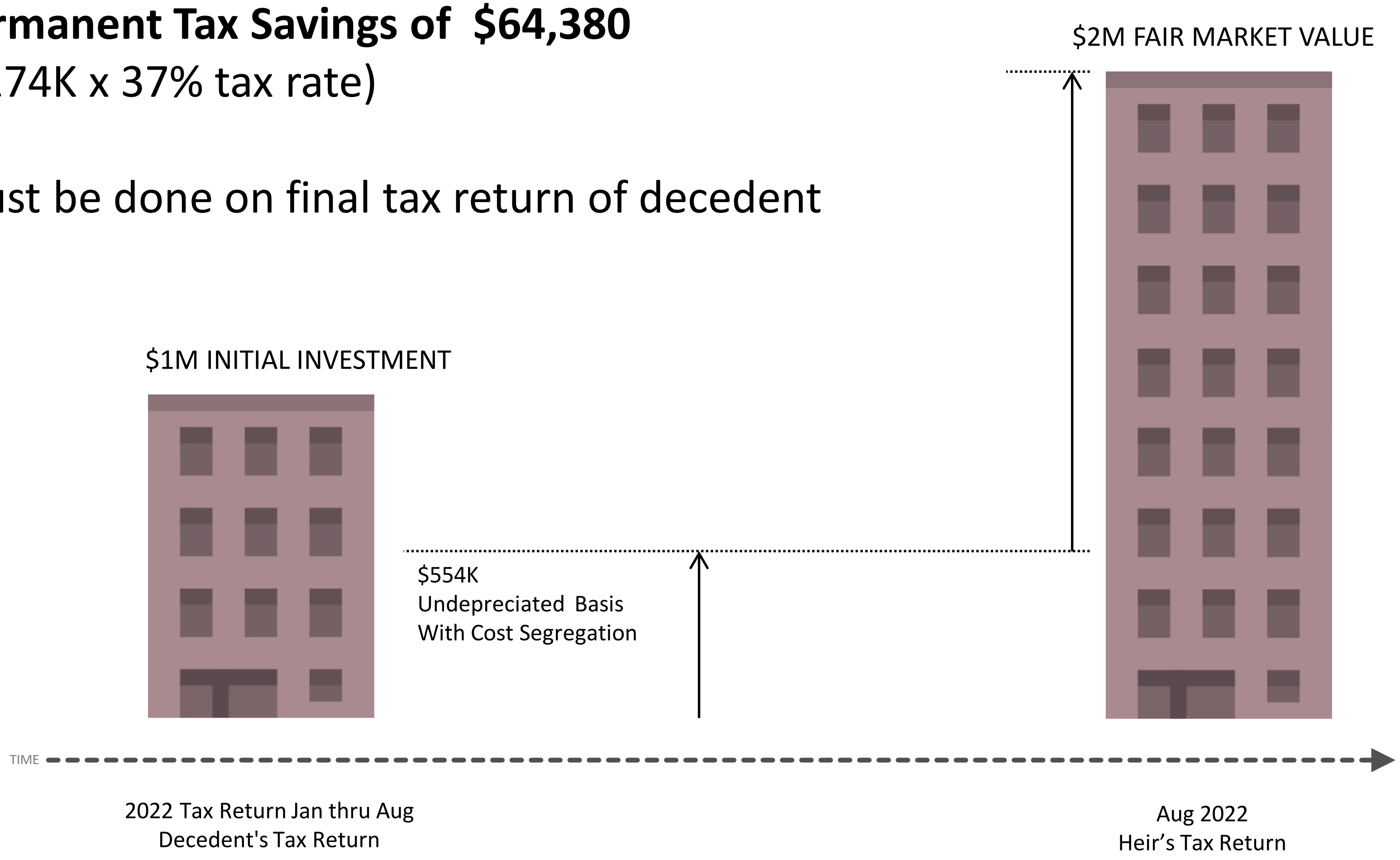


CASE STUDY 1:

COST SEGREGATION ON ORIGINAL PRE-STEPPED UP BASIS

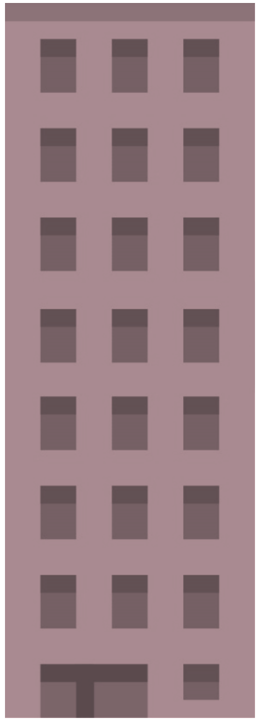
Permanent Tax Savings of $64,380
($174K x 37% tax rate)

Must be done on final tax return of decedent



HEIR STARTS DEPRECIATION OVER

$2M FAIR MARKET VALUE



Aug 2022

- Ultimately, the property gets stepped up to fair market value for the heir.
- Can perform a cost seg for the heirs
- Additional cost to “refresh” original cost segregation is nominal

RESIDENTIAL COST SEGREGATOR® SOFTWARE

- Designed for Tax Preparers. Generate a cost segregation report without the need to hire a third-party cost segregation engineer.
- Only for residential properties up to 6 units with a depreciable tax basis of $600,000 or less (purchase price less land).
  - Including rental homes, condos, and townhomes
- Relies on information provided by the building owner, empirical construction data, and proprietary algorithms written by the KBKG Cost Segregation Engineering team.
- Provides a detailed cost breakdown for the property categorized by tax recovery period, that can be used for income tax depreciation purposes.

KBKG.com/Residential-CostSegregator

RESIDENTIAL COST SEGREGATOR®

- Most reports result in > $20k of increased deductions in years 1-5
- Takes less than 15 minutes of time.
  - Email client a simple building questionnaire
- Designed for Tax Preparers to offer this service as their own.
  - Client input screen and reports are “white-labeled”
- Audit Support from KBKG if IRS examines our report
- Optional 481(a) calculator
- Pricing provided in Q&A session (after webinar)
- Tax Preparers can charge clients $1,000 - $2,000+

For more info: https://www.kbkg.com/residential-costsegregator

Register for a free account at https://solutions.kbkg.com/

RESIDENTIAL COST SEGREGATOR®

3 Easy Steps:

Step 1. Estimate potential tax savings for your client.

Step 2. Send survey invitation link to building owner to fills out details.

Step 3. Review info and let Residential Cost Segregator® generate report

Cost Segregation Report is complete!

Step 4. (Optional for prior year acquisitions). Send cost segregation detail to the 481(a) Adjustment Calculator.

LIVE DEMO

RESIDENTIAL COST SEGREGATOR®

1. Rental Duplex; **$200,000** tax basis (27.5 year); purchased in 2011
   - Additional Deductions: **Year 1 = $18,000; NPV = $4,500***

2. Single Family Rental; **$300,000** tax basis (27.5 year); purchased in 2013
   - Additional Deductions: **Year 1 = $25,000; NPV = 7,500***

3. 3 Unit Rental; **$400,000** tax basis (27.5 year); purchased in 2014
   - Additional Deductions: **Year 1 = $28,000; NPV = $10,000***

4. 6 Unit Apartment; **$500,000** tax basis (27.5 year); purchased in 2016
   - Additional Deductions: **Years 1-5 = $45,000; NPV = $12,000***

Benefits only from for reclassification to short life property.

Does not account for benefits from future partial disposition deductions.

Assumes a combined state and federal tax rate of 40% and 8% ROI factor

POLLING QUESTION #3

TO EXPLORE COST SEGREGATION WITH KBKG FURTHER, BOOK A MEETING:

General | Interior | Exterior | Tax Benefits | Review

Street Address:

State:

City:

Zip:

Depreciable Tax Basis (purchase price less land): $500,000 or less

Date Acquired or Placed in Service:

Building Information

Type of Structure: Residential-Single Family

Number of Stories: 1

Total Building Square Footage: 0
Excluding basements, garages, attics,etc

Lot Square Footage: 0

Exterior Wall Type: Stucco

Basement: No

Quality and Condition

Construction Quality: Average

Physical Condition: Average

Save & Continue

General | **Interior** | Exterior | Tax Benefits | Review

Total Number of Bedrooms: 1
Num. of Bathrooms: 1
Fire Sprinklers: ☑ Yes

Flooring Type

Kitchen:	VCT	Master Bedroom:	Carpet
Bathrooms:	VCT	Other Bedrooms:	Carpet
Living, Family Room:	Laminate	Other Rooms:	N/A
Dining Room:	Laminate	Hallways:	N/A

Interior Features

HVAC: Heating Only
HVAC Type: Central/Ducted

Total Number of Ceiling Fans: 0
Window Treatment: Horizontal Blinds

Appliances:

☑ Dishwasher ☑ Range, Oven ☑ Refrigerator ☐ Garbage Disposal
☐ Washer & Dryer ☑ Microwave

Back | Save & Continue

Cost Segregation Result Schedule

Building System	Category Description	Allocated Purchase Cost	Life YR	Method	Asset Class
Building Structure and Interiors	Roof Structure	$6,174	27.5	SL	RealProperty
	Bathroom Vanities	$4,410	27.5	SL	RealProperty
	Wood Flooring	$5,756	27.5	SL	RealProperty
	Roof Covering	$2,982	27.5	SL	RealProperty
	Windows	$9,020	27.5	SL	RealProperty
	Building Shell & Foundation	$98,937	27.5	SL	RealProperty
	Doors	$7,596	27.5	SL	RealProperty
	Foundation & Framing	$10,186	27.5	SL	RealProperty
	Interior Partitions & Ceilings	$35,830	27.5	SL	RealProperty
	Other Flooring	$3,804	27.5	SL	RealProperty
Plumbing	Water & Waste Utility Services	$1,142	27.5	SL	RealProperty
	Bathroom Plumbing & Fixtures	$22,551	27.5	SL	RealProperty
HVAC	HVAC System	$10,524	27.5	SL	RealProperty
Building Electrical	Lighting	$4,761	27.5	SL	RealProperty
	Electrical Utility Services	$687	27.5	SL	RealProperty
	Electrical Service & Wiring	$14,460	27.5	SL	RealProperty
Fire Protection	Fire Sprinklers	$9,396	27.5	SL	RealProperty
	Fire Alarms	$1,729	27.5	SL	RealProperty
Real Property Subtotal		*$249,944*			
Other Non-Structural Interiors	Kitchen Cabinets & Countertops	$11,025	5	200%DB	57.0
	Kitchen Plumbing	$4,249	5	200%DB	57.0
	Removable Flooring	$3,547	5	200%DB	57.0
	Ceiling Fans & Wiring	$2,255	5	200%DB	57.0
	Carpet	$5,755	5	200%DB	57.0
	Appliances	$5,913	5	200%DB	57.0
	Blinds & Curtains	$1,002	5	200%DB	57.0
	Appliance Wiring	$1,729	5	200%DB	57.0
Non-Structural Interiors Subtotal		*$35,476*			
Sitework	Site Fencing	$1,777	15	150%DB	00.3
	Other Site Improvements	$1,002	15	150%DB	00.3

RETIREMENTS AND PARTIAL DISPOSITIONS

- Current regulations allow you to take a loss deduction when you remove components from your building

Example: If you pay $50,000 for all new HVAC units in your building, you need to capitalize that amount.

  - Depreciate that $50,000 over 39 years
  - Figure out how much of the old HVAC was not written off and claim all that as an immediate deduction

- Can do this on a go forward basis

RETIREMENT OF STRUCTURAL COMPONENTS

Example: Taxpayer acquired $5M building 3 years ago.

- This year they spent $1M to remodel portion of 2nd floor (ceilings, walls, lighting, plumbing, ducting, electrical wiring, etc.)
- We determine the original cost of demolished components is $470K (from the original $5M building)
- Recognize a loss of $430K on current tax return (original cost basis less depreciation already taken)

DETERMINING THE BASIS OF REMOVED BUILDING COMPONENT

Final Disposition Regulations:

- Can use a cost segregation study
- Can discount the cost of a replacement component to its placed-in-service year using the **<u>Producer Price Index (PPI)</u>**
  - i.e. If you paid $200K for new windows today, get value for <u>new</u> windows when building was placed in service 15 years ago
  - Discounting method can be used for restorations but **not for betterments or adaptations.**

Use KBKG Partial Disposition Calculator

- <u>http://kbkg.com/solutions/partial-disposition-calculator</u>

KBKG CAUTION: DISCOUNTING METHOD

In addition to discounting the new cost, should also consider the "condition" of the component at the time it was acquired

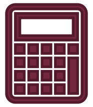
- ***Example:*** building acquired 3 years ago. Owner spent $200,000 to replace aluminum windows this year. Discount windows 3 years with PPI index = $186,000 for removed windows.
- However, this represents value of brand-new windows. Windows had 3 years of life left. Appropriate "condition factor" should be applied.
- Normal life of aluminum windows is 20 years. Appropriate condition factor is 27%,* resulting in a value of $50,220 ($186,000 × 27%).

See BNA Tax Article "Dispositions of Tangible Property – IRS Restricts use of Discount Value Approach"

*condition factor and normal life obtained from valuation resource tables

PARTIAL DISPOSITION CALCULATOR

- Determines the value of a component removed from a building without a cost segregation study
- Takes less than 5 minutes
- Utilizes an IRS approved calculation method
- Pricing provided after webinar
- Considers the condition of the respective component at the time it was acquired (accomplished by considering the component's normal life, quality, and age).



http://kbkg.com/solutions/partial-disposition-calculator

LIVE DEMO

Register for a free account at https://solutions.kbkg.com/

New Building Component

Cost of New Component* $	200,000	Date of Replacement*	08/18/2022

Original Building or Improvement

Building Cost / Tax Basis $	3,000,000	Date of Purchase (retired component or building)*	03/15/2016
		Year Building Originally Constructed	1995

Accumulated Depreciation as of Replacement Date

Accumulated Depreciation - Federal Tax $	250,000	Accumulated Depreciation - State Tax $	250,000
Accumulated Depreciation - Federal AMT $	250,000	Accumulated Depreciation - State AMT $	250,000

Calculation of Cost of Retired Component

PPI Index at time of purchase	189.2	PPI Index at time of replacement	248.866
Type of component*	Windows - Aluminum ×		
	Type of component		
Normal life of replaced component	20	Actual Age of Building at Time of Purchase	21
Number of years used prior to retirement	6	Effective age of component	14

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Calculation

Adjusted Calculation | Un-adjusted Calculation

PPI Adjusted Cost of Component Removed (CONDITION ADJUSTED)	$ 66,902	Date of Purchase	03/15/2016
PPI Adjusted Cost of Component Removed (Not Adjusted for Condition)	$ 152,050	Condition Factor	44 %
Accumulated Depreciation on Replaced Component - Federal Tax	$ 5,575	Accumulated Depreciation on Replaced Component - State Tax	$ 5,575
Accumulated Depreciation on Replaced Component - Federal AMT	$ 5,575	Accumulated Depreciation on Replaced Component - State AMT	$ 5,575
Regular federal tax deduction	$ 61,327		

KBKG

POLLING QUESTION #4

HOW TO CHOOSE A COST SEGREGATION PROVIDER

- Make sure study is signed off by a Certified Cost Segregation Professional (CCSP designation).
- Check resume and bio of person signing the report.
- Beware of firms that do not post bios and credentials on their websites.
- Evaluate which team you want defending you if the study goes under IRS audit.
  - Obtain references of clients that have gone through audit with the firm.
  - How large is the company? Smaller companies < 10 employees may not be around when your client is audited.
- Evaluate their team of tax experts
  - Smaller firms may lack deep understanding of complex tax issues that are affected by a study, creating exposure in other areas.

KBKG SOLUTIONS FOR TAX PROFESSIONALS AND BUSINESSES
Tax Credits • Incentives • Cost Recovery

TO EXPLORE COST SEGREGATION WITH KBKG FURTHER, BOOK A MEETING:

§45L RESIDENTIAL ENERGY TAX CREDITS

What is the §45L Tax Credit?

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.

Applicable Clients

- Anyone who has built apartments, condos, or production home developments in the last 4 years
- New Construction or substantial renovations
- Generally, more than 20 units
- 3 stories or less
- Available in all 50 states

HOW MUCH IS IT WORTH?

Starting in 2023, the Inflation Reduction Act increases the tax credit amount to as much as $5,000 per dwelling unit for both single-family and multifamily developments.

Example: 100 unit apartment/condo =

$200,000 of Federal Tax Credits

**3rd Party Certification Required (KBKG)*

179D COMMERCIAL ENERGY DEDUCTION

What is the 179D Tax Deduction**?**

Federal deduction for architects, engineers, and design/build contractors that work on public or government buildings such as:

- Charitable organizations – churches and religious organizations
- Private schools and universities
- Private foundations
- Political organizations
- Other nonprofits
- Native American Tribal Governments
- Alaska Native Corporations

Applicable Clients

- Designers, architects, general contractors, engineers, electrical & HVAC subcontractors
- Any building owner or lessee who constructed commercial improvement since 1/1/2006.
- Building should generally be greater than 50,000 SF

HOW MUCH IS IT WORTH?

$5.00 per sq. ft. in Federal tax deductions

Example: 100,000 sq. ft. building is eligible for $180,000 in deductions

RESEARCH & DEVELOPMENT TAX CREDIT

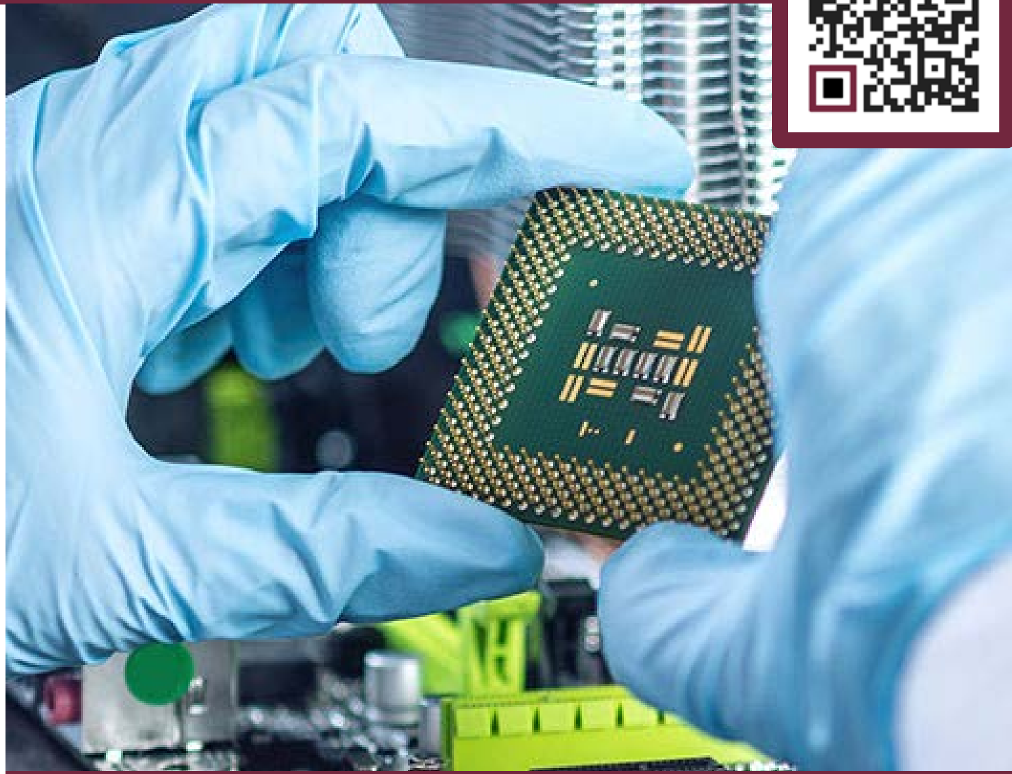
What is the R&D Tax Credit?

Federal tax incentive (also available in many states) designed to promote innovation in the United States. The credit is a dollar-for-dollar reduction in tax liability for a given year.

Applicable Industries and Clients

- Manufacturing
- Architecture
- Machining
- Engineering
- Software Development
- Food Science
- Equipment or Tool
- Life Sciences
- Foundries
- Automobile
- Chemical & Formula
- Aerospace & Defense

Clients developing or materially improving existing products, processes, software or formula. Clients that employ those with technical backgrounds (software development, engineering, etc.)



HOW MUCH IS IT WORTH?

Federal Benefit: Roughly 10% of their total Qualified R&D Expenses

Example: 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, IL R&D Credit is worth an additional 6.5% of Qualified R&D expenses incurred in IL.

TRANSFER PRICING FOR MULTINATIONAL COMPANIES

What is Transfer Pricing?

Transfer Pricing (TP) refers to the price a related cross-border company charges for goods, services, royalties and loans. As such, TP drives how much income tax is paid in each country.

While it's a highly contentious tax issue, many companies use TP studies to reduce their global effective tax rate.

Applicable Industries and Clients

Applies to all US & foreign-owned multinational companies. Tax savings likely in:
US multinational companies with global revenues > $50 million.
Profitable companies with NOLs in certain countries. Global revenues > $25M.
C-Corp exporters are now taxed at 13.125% on some income
Industries with more cross-border transactions include:

- Manufacturing
- Technology/Software
- Financial & Professional Services
- Healthcare
- Mining, Oil & Gas
- Pharmaceutical
- Transportation & Logistics
- Wholesale & Distribution
- Film & Music

HOW MUCH IS IT WORTH?

Ex 1: International Co. (30% tax) sells to US subsidiary with NOLs.
Reduce TP to utilize US tax losses.
$1M TP reduction = tax savings of <u>$300K annually!</u>

Ex 2: US Parent (21% tax) sells to Foreign subsidiary (30% tax)
Increase TP raises US profit / lowers foreign profit.
$1M TP increase = tax savings of <u>$90K annually!</u>
(30%-21%) X $1M

TO EXPLORE COST SEGREGATION WITH KBKG FURTHER, BOOK A MEETING:

IC-DISC FEDERAL EXPORT TAX INCENTIVE

What is the Interest Charge Domestic International Sales Corp (IC-DISC) Tax Incentive**?**

The IC-DISC provides significant and permanent tax savings for producers and distributors of U.S.-made products and certain services used abroad.

Applicable Industries and Clients

Any closely held, privately owned business with over $250K in profits from exports in industries including, but not limited to:

- Manufacturing
- Architecture
- Distributors
- Agriculture
- Software Developers
- Othim Producers

HOW MUCH IS IT WORTH?

4.8% - 8.5% of export income – depending on QBI deduction

9.6% - 17% permanent tax rate arbitrage on half of export profits (ordinary rate less dividend rate).

Example: Software company with $1M in sales outside US and $500K of associated net income.
Annual savings up to $42.5K / year!

FIXED ASSET TAX REVIEW

What is a Fixed Asset Tax Review**?**

Comprehensive review of company's entire fixed asset listing & supporting documents to assign appropriate tax lives, identify retirements, and correct items that should be expensed. Includes cost segregation & repair analysis.

Applicable Clients

- 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

HOW MUCH IS IT WORTH?

Net Present Value of 5-8% of total building related costs.

Example: Manufacturing client has $60M of 39-year fixed assets.

NPV Cash value = $3M -$4.8M

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PARTIAL DISPOSITION CALCULATOR

Determines the value of a component removed from a building without a cost segregation study

- **$90 for 24 hour access or $550 annually**
- https://www.kbkg.com/partial-disposition-calculator

RESIDENTIAL COST SEGREGATOR™

Free Audit Support from KBKG if IRS examines our report

- **Only $450 per report. Discounts available for multiple reports**
- https://www.kbkg.com/residential-costsegregator

481(A) ADJUSTMENT CALCULATOR

- https://www.kbkg.com/481a-calculator

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