

## Our Team is Your Resource

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.

## Value Added Services



### 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.



### 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.



### 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.



### 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.



### 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 (IC-DISC) offers significant Federal income tax savings for making or distributing US products for export.

## INDUSTRY MATRIX FOR TAX SAVING OPPORTUNITIES (updated 01-23-18)

Industry	R&D Tax Credits	Repair/Asset Retirement	45L Tax Credits	179D Tax Deductions	Cost Segregation /Fixed Asset	IC-DISC	199 DPAD Deduction
Affordable Housing		X	X	X	X		
Agriculture, Forestry & Fishing	X				X	X	
Architecture & Engineering	X			X	X	X	X
Auto Dealerships		X		X	X		
Communications & Utilities	X	X		X	X		
Construction	X				X		X
Film & Music	X	X		X	X	X	X
Financial Services	X	X			X		
Government Contractors	X	X		X	X	X	
Healthcare	X	X		X	X		
Hotels	X	X		X	X		
Logistics & Distribution	X	X		X	X	X	X
Manufacturing	X	X		X	X	X	X
Mining	X				X	X	
Multifamily Developers		X	X	X	X		
Oil & Gas	X	X			X		
Pharmaceutical	X	X		X	X	X	X
Professional Services	X	X			X		
Real Estate		X			X		
Restaurants		X			X		
Retail	X	X		X	X		
Technology/Software	X	X		X	X	X	X
Transportation	X				X		
Wholesale Trade	X	X		X	X	X	

Call us today at [877-525-4462](tel:877-525-4462) to see how we can help you and your clients better understand these opportunities and secure these specialty tax incentives.

## IDENTIFYING VALUE-ADDED TAX OPPORTUNITIES updated 01-23-18

KBKG Service	Description & Highlights	Applicable Clients & Industries	How Much is it Worth?	Tax Considerations
<p><b>Research &amp; Development Tax Credits (Federal &amp; State)</b></p>	<p>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.</p> <p>Qualifying expenses can include wages paid to employees, supplies used in the research process, and payments made to contractors for performing qualified research.</p>	<ul style="list-style-type: none"> <li>• Manufacturing</li> <li>• Software Development</li> <li>• Architects</li> <li>• High Tech</li> <li>• Food &amp; Beverage</li> <li>• Equipment or tools</li> <li>• Life Sciences</li> <li>• Agriculture</li> <li>• Clients developing brand new products, processes, software, or formula.</li> <li>• Clients materially improving existing products, processes, software or formula.</li> <li>• Clients that employ those with technical backgrounds (software development, engineering, etc..)</li> </ul>	<p><b>Federal Benefit - Roughly 10% of their total Qualified R&amp;D Expenses</b></p> <p>Ex. Client has \$1M/year of wages related to R&amp;D. Benefit = \$100k in gross credits per year.</p> <p>Many states also allow an R&amp;D credit. For example, CA R&amp;D Credit is worth an additional 7.5% of Qualified R&amp;D expenses.</p>	<p>General Business Tax Credit</p> <ul style="list-style-type: none"> <li>• Dollar-for-dollar reduction in income tax liabilities.</li> <li>• 1-year Carryback / 20-year carryforward of unused credits.</li> <li>• Qualified small businesses can reduce alternative minimum tax liabilities.</li> <li>• Qualified start-up companies can offset up to \$250,000 in payroll taxes.</li> </ul>
<p><b>Cost Segregation (Federal &amp; State)</b></p>	<p>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.</p>	<p>Any building with over \$750k of depreciable tax basis (excluding land).</p> <p>Any leasehold improvement with over \$500k of depreciable tax basis (excluding land).</p> <p>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.</p>	<p>Net Present Value is roughly 5% of the total building cost.</p> <p>Ex. \$2M office can yield an after-tax NPV of \$100k.</p>	<ul style="list-style-type: none"> <li>• Reduces AMT</li> <li>• Starting in 2018, unused deductions carryforward.</li> <li>• Must recapture personal property and bonus eligible assets upon the sale of a building.</li> </ul>
<p><b>Repair v. Capitalization Review "Asset Retirement Study" (Federal)</b></p>	<p>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.</p> <p>KBKG also provides compliance consulting for repair and disposition regulations.</p>	<p><b>Any building renovation costs &gt; \$400k</b></p> <p><b>Retirement Study</b> - Building is renovated AFTER owning it at least 1 year. Building should have <u>&gt;\$500K of remaining depreciable basis left.</u></p> <p><b>Repair Study</b> - renovations that include roof, HVAC, windows, lighting, plumbing, ceilings, drywall, flooring, etc.</p>	<p>Additional Year 1 deductions of 15%-40% of renovation costs (on top of benefits from 1245 reclassification)</p> <p>Ex. Client spends \$3M on structural renovations. Additional Year 1 deductions of \$450K-\$1.2M.</p>	<p>Depending on project specifics, may require a separate 3115 if doing concurrently with a depreciation change.</p>

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## IDENTIFYING VALUE-ADDED TAX OPPORTUNITIES (CONT.) updated 01-23-18

KBKG Service	Description & Highlights	Applicable Clients & Industries	How Much is it Worth?	Tax Considerations
<b>Fixed Asset Tax Review (Federal)</b>	<p>Comprehensive review of company's entire Fixed Asset listing &amp; supporting documents to assign appropriate tax lives, identify retirements, and correct items that should be expensed.</p> <p>Includes Cost Segregation &amp; Repair analysis.</p>	<p>Operations with &gt; \$40M in real property or &gt; 500 lines of fixed assets.</p> <ul style="list-style-type: none"> <li>Retail, Restaurant, Bank and Hotel Chains of 10 or more</li> <li>Manufacturing</li> <li>Utility Companies</li> </ul>	<p>Net Present Value of 5-8% of total building-related costs.</p> <p>Ex. Manufacturing client has \$60M of 39-year fixed assets. NPV Cash value = \$3M - \$4.8M</p>	<ul style="list-style-type: none"> <li>Reduces AMT</li> <li>Starting in 2018, unused deductions carryforward.</li> <li>Must recapture personal property and bonus eligible assets upon the sale of a building.</li> </ul>
<b>Residential Energy Credits / Section 45L (Federal / States can have similar programs)</b>	<p>Federal credit for developers of <b>Apartments, Condos, or Spec Homes</b> that meet certain energy efficiency standards.</p> <p>Units must be certified by a qualified professional to be eligible.</p>	<p>Anyone that has built Apartments, Condos, or Production Home Developments in the last 4 years. <b>Generally, more than 20 units.</b></p>	<p><b>Federal Credit = \$2,000 per apartment/home unit.</b></p> <p><b>Many states have similar credits.</b></p> <p>Ex. 100-unit apartment/condo can get \$200,000 of Federal Tax Credits.</p>	<p>General Business Tax Credit</p> <ul style="list-style-type: none"> <li>Credit is realized when unit is first leased or sold, not placed in service.</li> <li>1-year Carryback</li> <li>20-year carryforward.</li> <li>Does not reduce AMT.</li> <li>Subject to passive activity loss rules</li> <li>Credit reduces basis.</li> </ul>
<b>Commercial Energy Deductions / Section 179D (Federal/ States can have similar programs)</b>	<p>Federal deduction for <b>Architects, Engineers, and Design/Build Contractors</b> that work on Public or Government Buildings such as Schools, Libraries, Courthouses, Military Housing etc.</p> <p><b>Also available to any commercial building owner.</b></p>	<ul style="list-style-type: none"> <li><b>179D for Designers:</b> Architects, General Contractors, Engineers, Electrical &amp; HVAC Subcontractors.</li> <li><b>Any Building Owner or Lessee:</b> That has constructed a commercial improvement greater than 40,000 SF since 1/1/2006.</li> </ul>	<p><b>\$.30 up to \$1.80 per square foot in Federal Tax Deductions.</b></p> <p>Ex. 100,000SF building is eligible for \$180,000 in deductions.</p>	<ul style="list-style-type: none"> <li>Reduces AMT</li> <li>Deduction reduces basis in real property.</li> </ul> <p>Designers must amend open tax years to claim</p> <p>Owners: Can go back to 2006 with Form 3115 to claim missed deductions.</p>
<b>CA Competes Credit (State)</b>	<p>California income tax credits designed to stimulate growth throughout the state.</p>	<p><b>CA Competes Credit:</b> Growing business clients who anticipate hiring additional employees, constructing new buildings, or investing in new equipment.</p>	<p>Must apply for credits. Up to <b>\$37,000 per eligible employee</b>, over a 5-year period. <b>Generally, 15-35% of employees qualify.</b></p> <p><b>Equipment - Credit is equal to Sales Tax paid.</b></p>	<ul style="list-style-type: none"> <li>Credits will reduce taxes on owners W2 wages and personal return.</li> <li>Credits flow through to owners.</li> <li>Credits will offset tax at the S-Corp level.</li> </ul>
<b>IC-DISC Federal Income Tax Incentive (Federal)</b>	<p>The IC-DISC provides significant and permanent tax savings for producers and distributors of U.S.-made products and certain services used abroad.</p>	<p><b>Any closely held, privately owned business with over \$250,000 in profits from exports</b></p> <ul style="list-style-type: none"> <li>Manufacturers</li> <li>Distributors</li> <li>Architects &amp; Engineers</li> <li>Agriculture and Food Producers</li> <li>Software Developers</li> <li>Other Producers</li> </ul>	<p>Minimum permanent <b>17% decrease in tax rate on half of export profits.</b> Benefits can be dramatically higher by performing a transaction-by-transaction analysis.</p>	<ul style="list-style-type: none"> <li>Requires annual filing 1120 IC-DISC.</li> <li>No changes to business operations.</li> <li>Benefits begin when entity is formed.</li> </ul>

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## Qualified Improvements - Depreciation Quick Reference (updated 3/27/2020)

	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 <b>Improvement</b> Property (QIP): 2018 - Onward	01/01/18 - onward	15 Year / SL	Y	N	N	Y <sup>9</sup>	Applies to interior common areas. Building can be owner occupied. No 3-year rule. See exclusions in definition.	168(e)(6)
Qualified <b>Improvement</b> Property (QIP): 2016 - 2017	1/1/16 - 12/31/17	39 <sup>5</sup> Year / SL	Y	N	N	N <sup>7</sup>	Applies to interior common areas. Building can be owner occupied. No 3-year rule. See exclusions in definition.	168(k)(3)
Qualified <b>Leasehold</b> Improvements (QLI): 2004 - 2017	10/23/04 - 12/31/17	15 Year / SL	Y <sup>1</sup>	Y	Y	2010 - 2017 <sup>6</sup>	Landlord or lessee can make the interior improvement. See exclusions in definition.	168(e)(6)
Qualified <b>Leasehold</b> 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 <b>Retail</b> Improvement Property: 2016 - 2017	1/1/16 - 12/31/17	15 Year / SL	Y	Y	N	2010 - 2017 <sup>6</sup>	Building can be owner occupied. See exclusions in definition.	168(e)(8)
Qualified <b>Retail</b> Improvement Property: 2009-2015	1/1/09 - 12/31/15	15 Year / SL	N <sup>2</sup>	Y	N	2010 - 2017 <sup>6</sup>	Building can be owner occupied. See exclusions in definition.	168(e)(8)
Qualified <b>Restaurant</b> Property: 2009 - 2017	1/1/09 - 12/31/17	15 Year / SL	N <sup>4</sup>	N	N	2010 - 2017 <sup>6</sup>	Encompasses the entire building structure as well as interior costs. Can be an acquired building.	168(e)(7)
Qualified <b>Restaurant</b> 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 <b>Restaurant</b> Property: 2004-2007	10/23/04 - 12/31/07	15 Year / SL	N <sup>3</sup>	Y	N	N/A	Applicable to all improvements attached to building.	168(e)(7)

### 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 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.

Bonus Depreciation Rates (inclusive dates)	
9/11/01 - 5/5/03 <sup>8</sup>	30%
5/6/03 - 12/31/04 & 1/1/08 - 9/8/10 <sup>8</sup>	50%
9/9/10 - 12/31/11 <sup>8</sup>	100%
1/1/12 - 9/27/17 <sup>8</sup>	50%
9/28/17 - 12/31/22 <sup>8, 10, 11</sup>	100%
1/1/23 - 12/31/23 <sup>8, 10, 11</sup>	80%
1/1/24 - 12/31/24 <sup>8, 10, 11</sup>	60%
1/1/25 - 12/31/25 <sup>8, 10, 11</sup>	40%
1/1/26 - 12/31/26 <sup>8, 10, 11</sup>	20%

### Section 179 Expense Limitations (Dates, Dollar Limit, Reduction)

01/01/11 - 12/31/17	\$500,000	\$2,000,000
1/1/18 onward <sup>1</sup>	\$1,000,000 <sup>2</sup>	\$2,500,000 <sup>2</sup>

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)<sup>A</sup> 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<sup>A</sup> 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 benefiting a common area, or (iv) the internal structural framework of the building.

**Qualified restaurant property<sup>B</sup> 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<sup>B</sup> 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<sup>A</sup> (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<sup>A</sup> (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.

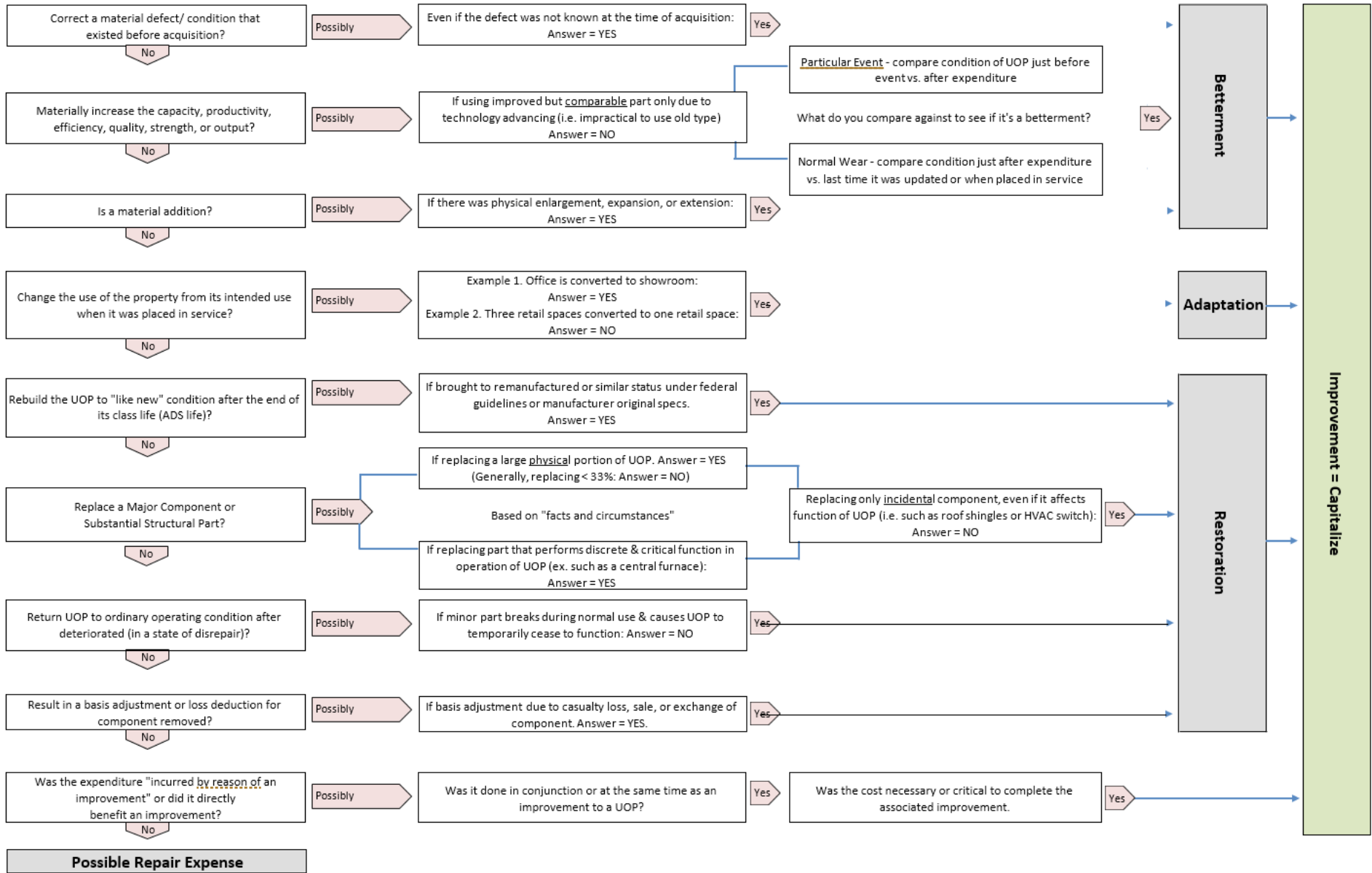
#### Other notes:

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

Considering the appropriate Unit of Property (UOP), does the expenditure (Last Updated 03-20-2015):



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## KBKG Building Unit of Property & Major Components Chart *updated 05-16-17*

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

Real Estate Major Component (examples)	Building Structure	Land Improvements	HVAC System	Electrical System	Plumbing Systems	Fire Protection System	Security System	Gas Distribution System	Escalators	Elevators
	<ul style="list-style-type: none"> <li>Roof System (membrane, insulation &amp; structural supports)</li> <li>Foundation</li> <li>Other structural &amp; structural supports</li> <li>Load Bearing Elements, including stairs</li> <li>Exterior Wall System</li> <li>Ceilings</li> <li>Floors</li> <li>Doors</li> <li>Windows</li> <li>Partitions</li> <li>Loading Docks</li> </ul>	<ul style="list-style-type: none"> <li>Landscaping including shrubs, trees, ground cover, lawn, irrigation</li> <li>Storm drainage including inlets, catch basins, piping, lift stations</li> <li>Site lighting (pole lights, bollard lights, up lights, wiring)</li> <li>Hardscape (retaining walls, pools, water features)</li> <li>Site Structures (gazebo, carport, monument sign)</li> <li>Paving (roads, driveway, parking areas, sidewalks, curbing)</li> </ul>	<ul style="list-style-type: none"> <li>Heating System (boilers, furnace, radiators)</li> <li>Cooling System (compressors, chillers, cooling towers)</li> <li>Rooftop Packaged Units</li> <li>Air Distribution (Ducts, fans, etc)</li> <li>Piping (heated, chilled, condensate water)</li> </ul>	<ul style="list-style-type: none"> <li>Service &amp; Distribution (panel boards, transformers, switchgear, metering)</li> <li>Lighting (interior &amp; exterior building mounted)</li> <li>Site Electrical Utilities</li> <li>Branch Wiring (outlets, conduit, wire, devices etc.)</li> <li>Emergency Power Systems</li> </ul>	<ul style="list-style-type: none"> <li>Plumbing Fixtures (sinks, toilets, tubs etc.)</li> <li>Wastewater System (drains, waste &amp; vent piping)</li> <li>Domestic Water (supply piping and fittings)</li> <li>Water Heater</li> <li>Site Piping Utilities</li> </ul>	<ul style="list-style-type: none"> <li>Sprinkler System (piping, heads, pumps)</li> <li>Fire Alarms (detection &amp; warning devices, controls)</li> <li>Exit lighting &amp; signage</li> <li>Fire Escapes</li> <li>Extinguishers &amp; hoses</li> </ul>	<ul style="list-style-type: none"> <li>Building security alarms</li> <li>(detectors, sirens, wiring)</li> <li>Building access &amp; control system</li> </ul>	<ul style="list-style-type: none"> <li>Gas piping including to/from property line &amp; other buildings</li> </ul>	<ul style="list-style-type: none"> <li>Stair and Handrail</li> <li>Drive System (motors, truss, tracks)</li> </ul>	<ul style="list-style-type: none"> <li>Elevator Car</li> <li>Drive System (motors, lifts, controls)</li> <li>Suspension system (counterweights, framing, guide rails)</li> </ul>

\* 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.

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

### Definitions

<b>Plant Property</b>	Machinery & Equipment used to perform an industrial process such as manufacturing, generation, warehousing, distribution, automated materials handling, or other similar activities
<b>Network Assets</b>	Railroad track, oil & gas pipelines, water & sewage pipelines, power transmission & distribution lines, telephone & cable lines; -- owned or leased by taxpayers in each of those respective industries.
<b>Major Component</b>	Part or combination of parts that performs a discrete and critical function in the operation of the unit of property
<b>Incidental Component</b>	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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# THE EMPLOYEE RETENTION CREDIT: A VALUABLE ALTERNATIVE TO EMERGENCY LOANS

Hosted by:

**Kevin Zolriasain**

*Principal – Research & Development Tax Credit Services*

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## ADMINISTRATION

### AUDIO

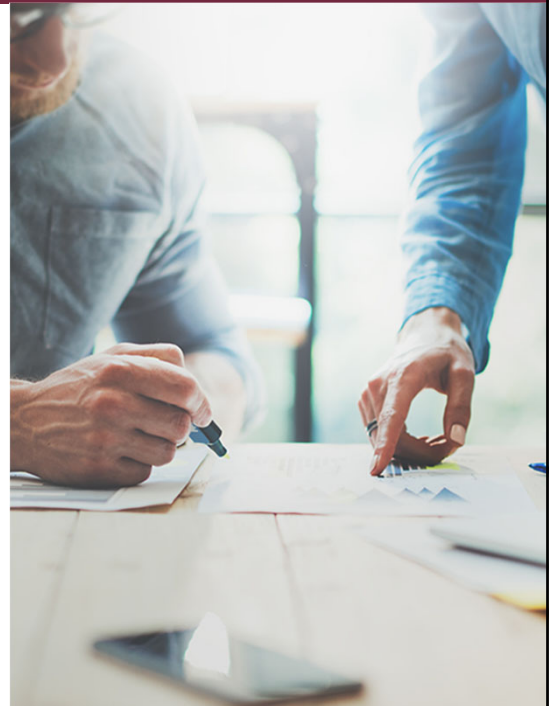
- For the best sound, you should dial in and use the provided telephone number for audio.

### 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 during our live Q&A.



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## ABOUT 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 hundreds of millions of 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.

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**KEVIN ZOLRIASATAIN**

**KBKG**

- Principal at KBKG
- 15+ years of experience providing R&D tax credit services to companies of various sizes
- Documented hundreds of millions of dollars in research credits for clients
- Instructor and author of external and internal continuing education courses
- Background with Big 4 CPA firms
- California State University, Northridge
  - Business Administration, emphasis in Accounting and Finance


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## AGENDA

- Overview
- Eligible Employer
- Full or Partial Suspension
- Significant Decline in Gross Receipts
- Affiliation Rules
- Number of Full-Time Employees
- Qualified Wages
- Credit Calculation Examples
- How to Claim the Credit
- Revised IRS Form 941
- When Does the Credit End?
- Interaction with Other Credits & Loan Programs
- Summary of Government Backed Relief Options



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## OVERVIEW

- The Employee Retention Credit (ERC) was created to encourage businesses to retain and pay employees, instead of furloughing or laying them off, by providing a credit to the Eligible Employer for wages paid to Eligible Employees
- The credit is computed at a rate of 50% of Qualified Wages paid up to a maximum of \$10,000 of wages resulting in a maximum credit of \$5,000 per Eligible Employee
- The ERC applies to the period March 13th, 2020 to December 31st, 2020
- Eligible Employers can get immediate access to the credit by reducing employment tax deposits they are otherwise required to make
- Also, if the employer's employment tax deposits are not sufficient to cover the credit, the employer may get an advance payment from the IRS



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## ELIGIBLE EMPLOYER

- The credit is available to all employers regardless of size including tax-exempt organizations
- An Eligible Employer (including all members of a control group) must either:
  - Have their operations fully or partially suspended
  - Or*
  - Experience a significant decline in gross receipts (defined later) during a calendar quarter
- An Eligible Employer cannot be either:
  - A governmental employer
  - Or*
  - A recipient of a PPP loan
- Self-employed individuals are not eligible for this credit for their own self-employment earnings, though they may be able to claim the credit for wages paid to their employees



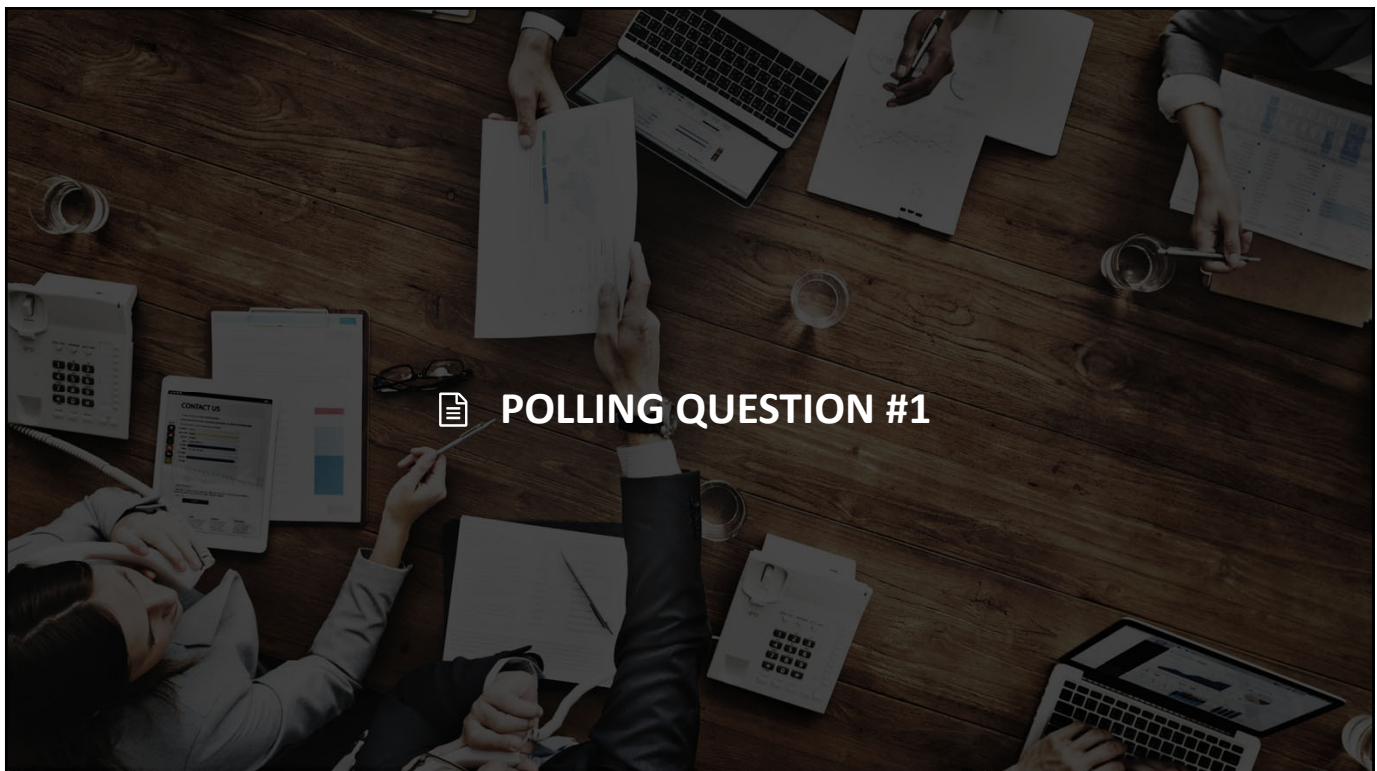
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## FULL OR PARTIAL SUSPENSION

- The operation of a trade or business is considered partially suspended if an appropriate governmental authority imposes restrictions on the employer's operations by limiting commerce, travel, or group meetings (for commercial, social, religious, or other purposes) due to COVID-19 such that the employer can still continue some, but not all of its typical operations
- An employer that operates an essential business is not considered to have a full or partial suspension of operations if the governmental order allows the employer to remain open, even though the governmental order requiring non-essential businesses to close may have an effect on the employer's operations
- If a business has multiple locations, with different closure guidelines, the employer can choose to follow more stringent guidelines and close all locations
  - In this case, the employer would be considered a qualified employer under this test
- If an employer is ordered to shut down but can continue operations comparable to its operations prior to closure (e.g., employees working from home), it does not qualify for the credit
- Partial closure of operations (e.g., restaurant that continues pickup/delivery services) qualifies for the credit under the partial closure rules
- There are various other exemptions

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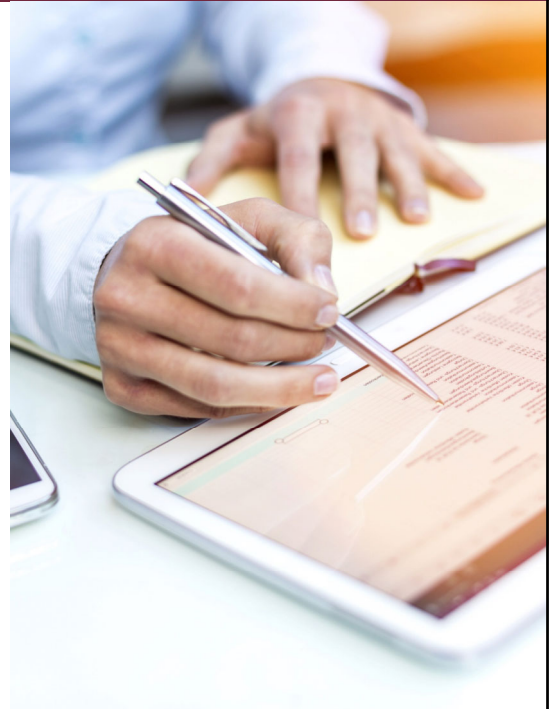


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## SIGNIFICANT DECLINE IN GROSS RECEIPTS

- A significant decline in gross receipts begins:
  - on the first day of the first calendar quarter of 2020
  - for which an employer's gross receipts are less than 50% of its gross receipts
  - for the same calendar quarter in 2019
- The significant decline in gross receipts ends:
  - on the first day of the first calendar quarter following the calendar quarter
  - in which gross receipts are more than 80% of its gross receipts
  - for the same calendar quarter in 2019
- Gross receipts for purposes of the ERC for an employer has the same meaning as when used under Section 448(c) of the Internal Revenue Code
  - Under Section 448(c) regulations, "gross receipts" means gross receipts of the taxable year and generally includes total sales (net of returns and allowances) and all amounts received for services
  - In addition, gross receipts include any income from investments, and from incidental or outside sources



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## SIGNIFICANT DECLINE IN GROSS RECEIPTS (EXAMPLE)

	Q2	Q3	Q4
2019	\$250,000	\$250,000	\$250,000
2020	\$120,000	\$210,000	\$230,000
Change	-\$130,000	-\$40,000	-\$20,000
	-52%	-16%	-8%

- The taxpayer will qualify as an Eligible Employer ending 4/30/2020 since Q2 gross receipts declined by more than 50%
- The taxpayer will cease to be an Eligible Employer after 9/30/2020 since Q3 gross receipts declined by less than 80%
- The taxpayer's credit will be based on wages paid from 4/1/2020 - 9/30/2020

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## AFFILIATION RULES

- Each employer must apply the aggregation rules of IRC section 414(m) and (o) as well as IRC section 52(a) or (b)
- Under IRC section 414(m) an affiliated service group is treated as a common employer based on rules based on the performance of services by one entity for the benefit of another entity
- Under Section 52, corporate employers must aggregate the number of employees if:
  - It is included in a parent-subsidiary group where a common parent owns more than 50 % of the subsidiaries
  - It is included in a brother-sister combined group where a group of 5 people owns 80 % or more of each corporation
  - It is a combined group which is a group of three or more corporations each of which is either a parent-subsidiary group or a brother-sister controlled group
- Section 52b also applies similar rules to corporate entities like partnerships, trusts, etc.

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## NUMBER OF FULL-TIME EMPLOYEES

- The term "full-time employee" means an employee who, with respect to any calendar month in 2019, had an average of at least 30 hours of service per week or 130 hours of service in the month
  - 130 hours of service in a month is treated as the monthly equivalent of at least 30 hours of service per week
- An employer that operated its business for the entire 2019 calendar year determines the number of its full-time employees by taking the sum of the number of full-time employees in each calendar month in 2019 and dividing that number by 12
- An employer that started its business operations during 2019 determines the number of its full-time employees by taking the sum of the number of full-time employees in each full calendar month in 2019 in which the employer operated its business and dividing by that number of months
- An employer that started its business operations during 2020 determines the number of its full-time employees by taking the sum of the number of full-time employees in each full calendar month in 2020 in which the employer operated its business and dividing by that number of months

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## QUALIFIED WAGES

- Qualified wages are wages (as defined in section 3121(a) of the IRC) and compensation (as defined in section 3231(e) of the IRC) paid by an Eligible Employer to some or all employees between March 13th, 2020, and December 31st, 2020
- Qualified wages include the Eligible Employer's qualified health plan expenses that are properly allocable to the wages
- The calculation of Qualified Wages depends on whether the employer has 100 or less employees or more than 100 employees
  - 100 or less employees:
    - Qualified Wages are all wages paid to employees within the determined period qualify
    - Plus all qualified health care costs
  - More than 100 employees:
    - Qualified wages include only wages paid to employees for the time the employee did not work due to economic hardship as a result of COVID-19
    - Plus qualified health care costs prorated to qualified wages

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## CREDIT CALCULATION EXAMPLE #1

- Company with 3 employees that suspended operations as a result of state mandate

Row Labels	Qual Wages	Qual Health	Furl Wages	Qual Costs
<b>Employee 1</b>				
3/31/20	10,000.00	2,500.00		12,500.00
6/30/20	5,000.00	2,500.00		7,500.00
9/30/20	5,000.00	2,500.00		7,500.00
12/31/20	5,000.00	2,500.00		7,500.00
<b>Employee 1 Total</b>	<b>25,000.00</b>	<b>10,000.00</b>		<b>35,000.00</b>
<b>(blank)</b>				
(blank)				-
<b>(blank) Total</b>				-
<b>Employee 2</b>				
3/31/20	5,000.00	1,000.00		6,000.00
6/30/20	5,000.00	1,000.00		6,000.00
9/30/20	5,000.00	1,000.00		6,000.00
12/31/20	5,000.00	1,000.00		6,000.00
<b>Employee 2 Total</b>	<b>20,000.00</b>	<b>4,000.00</b>		<b>24,000.00</b>
<b>Employee 3</b>				
3/31/20	1,000.00			1,000.00
6/30/20	1,000.00			1,000.00
9/30/20	1,000.00			1,000.00
12/31/20	1,000.00			1,000.00
<b>Employee 3 Total</b>	<b>4,000.00</b>			<b>4,000.00</b>
<b>Grand Total</b>	<b>49,000.00</b>	<b>14,000.00</b>		<b>63,000.00</b>

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## CREDIT CALCULATION EXAMPLE #1 (CONTINUED)

Employee Name	Q1 Cost Used	Q2 Cost Used	Q3 Cost Used	Q4 Cost Used	Total Cost Used
	-	-	-	-	-
Employee 1	10,000.00	-	-	-	10,000.00
Employee 2	6,000.00	4,000.00	-	-	10,000.00
Employee 3	1,000.00	1,000.00	1,000.00	1,000.00	4,000.00
<b>Total</b>	<b>17,000.00</b>	<b>5,000.00</b>	<b>1,000.00</b>	<b>1,000.00</b>	<b>24,000.00</b>

Employee Name	Q1 Credit	Q2 Credit	Q3 Credit	Q4 Credit	Total Credit
	-	-	-	-	-
Employee 1	5,000.00	-	-	-	5,000.00
Employee 2	3,000.00	2,000.00	-	-	5,000.00
Employee 3	500.00	500.00	500.00	500.00	2,000.00
<b>Total</b>	<b>8,500.00</b>	<b>2,500.00</b>	<b>500.00</b>	<b>500.00</b>	<b>12,000.00</b>

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## CREDIT CALCULATION EXAMPLE #2

- Company with more than 100 employees that suspended operations as a result of state mandate
- Only the wages of 3 employees are shown for demonstration purposes
- Same wages paid and qualified health as with example #1 with 25% of wages being attributable to “non-worked” wages (“Furlough Wages”)

Row Labels	Qual Wages	Qual Health	Furl Wages	Qual Costs
<b>Employee 1</b>				
3/31/20	10,000.00	2,500.00	2,500.00	3,125.00
6/30/20	5,000.00	2,500.00	1,250.00	1,875.00
9/30/20	5,000.00	2,500.00	1,250.00	1,875.00
12/31/20	5,000.00	2,500.00	1,250.00	1,875.00
<b>Employee 1 Total</b>	<b>25,000.00</b>	<b>10,000.00</b>	<b>6,250.00</b>	<b>8,750.00</b>
(blank)				
(blank)				
<b>(blank) Total</b>				
<b>Employee 2</b>				
3/31/20	5,000.00	1,000.00	1,250.00	1,500.00
6/30/20	5,000.00	1,000.00	1,250.00	1,500.00
9/30/20	5,000.00	1,000.00	1,250.00	1,500.00
12/31/20	5,000.00	1,000.00	1,250.00	1,500.00
<b>Employee 2 Total</b>	<b>20,000.00</b>	<b>4,000.00</b>	<b>5,000.00</b>	<b>6,000.00</b>
<b>Employee 3</b>				
3/31/20	1,000.00		250.00	250.00
6/30/20	1,000.00		250.00	250.00
9/30/20	1,000.00		250.00	250.00
12/31/20	1,000.00		250.00	250.00
<b>Employee 3 Total</b>	<b>4,000.00</b>		<b>1,000.00</b>	<b>1,000.00</b>
<b>Grand Total</b>	<b>49,000.00</b>	<b>14,000.00</b>	<b>12,250.00</b>	<b>15,750.00</b>

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## CREDIT CALCULATION EXAMPLE #2

Employee Name	Q1 Cost Used	Q2 Cost Used	Q3 Cost Used	Q4 Cost Used	Total Cost Used
	-	-	-	-	-
Employee 1	3,125.00	1,875.00	1,875.00	1,875.00	8,750.00
Employee 2	1,500.00	1,500.00	1,500.00	1,500.00	6,000.00
Employee 3	250.00	250.00	250.00	250.00	1,000.00
<b>Total</b>	<b>4,875.00</b>	<b>3,625.00</b>	<b>3,625.00</b>	<b>3,625.00</b>	<b>15,750.00</b>

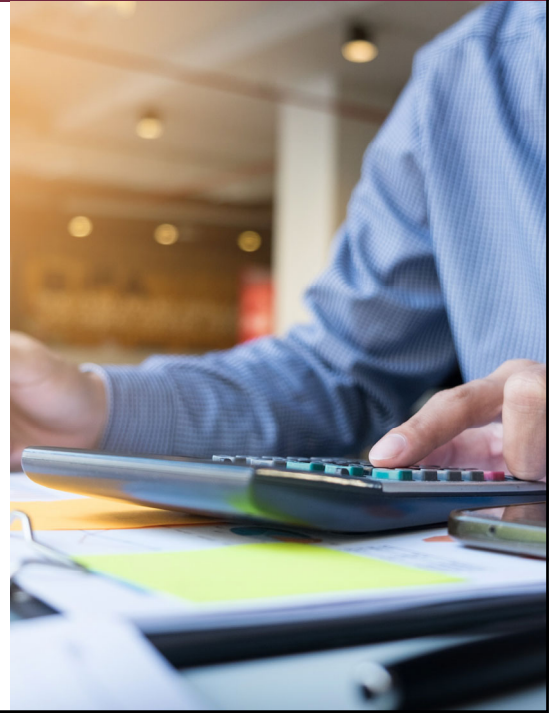
Employee Name	Q1 Credit	Q2 Credit	Q3 Credit	Q4 Credit	Total Credit
	-	-	-	-	-
Employee 1	1,562.50	937.50	937.50	937.50	4,375.00
Employee 2	750.00	750.00	750.00	750.00	3,000.00
Employee 3	125.00	125.00	125.00	125.00	500.00
<b>Total</b>	<b>2,437.50</b>	<b>1,812.50</b>	<b>1,812.50</b>	<b>1,812.50</b>	<b>7,875.00</b>

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## HOW TO CLAIM THE CREDIT

- If the employer's employment tax deposits are not sufficient to cover the credit, the employer may get an advance payment from the IRS
  - They can request this using an Advance Credit Form (IRS Form No. 7200)
- Otherwise, they reduce payroll tax deposits they are otherwise required to make, and
  - Claim a credit on the Employer's Quarterly Federal Tax Return (IRS Form No. 941)
- Example:
  - Employer has \$10,000 in qualified wages resulting in a \$5,000 credit
  - Employer's total withholding for all employees (including FICA and Federal Income Tax Withholding) is \$8,000 after deferral of employee's payroll tax
  - Employer may deposit \$3,000 and retain the \$5,000 credit



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## WHEN DOES THE CREDIT END?

- The credit is only applicable to wages paid through the earlier of
  - December 31, 2020
  - When the governmental order to fully or partially suspend its business operations is lifted
  - While the employer is an Eligible Employer for the entire period, it can only claim a credit on wages paid before the suspension was lifted
- The credit ends the quarter following the quarter in which gross receipts exceed 80% of gross receipts over the gross receipts for the same calendar quarter of the prior
- Example:
  - The state a taxpayer operates in issues an order for all non-essential businesses to close from March 13 to April 30 but does not extend the order
  - Wages paid from March 13 to March 31 would count for the 1st Quarter
  - Wages paid from April 1 to April 30 would count for the 2nd Quarter
  - They cannot claim any credit for May-Dec 2020

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## INTERACTION WITH OTHER CREDITS & LOAN PROGRAMS

- If an employer receives a Paycheck Protection Program loan, authorized under the CARES Act, then the employer is not eligible for the Employee Retention Credit
  - There are no such restrictions for the Main Street Loan Programs
- May an employer claim both the Medical Leave Credit (IRC section 45(s)) and the Employee Retention Credit?
  - **Yes.** However, both credits cannot be taken on the same wages. So, if an employer pays more than \$10,000 in wages, only the excess can qualify for the Medical Leave Credit.
- May an employer claim the Work Opportunity Credit and the Employee Retention Credit on the same employee?
  - **No**

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<b>SUMMARY OF GOVERNMENT BACKED RELIEF OPTIONS</b>						
	EIDL Loans	PPP Loans	Main Street Loans	PMCCF & SMCCF	Employee Retention Credit	Payroll Tax Deferment
Available Amounts	\$100 Billion In loans and grants	\$659 Billion	\$600 Billion	\$750 Billion	n/a	n/a
Eligibility	Sole Proprietors, Independent Contractors Businesses with <500 employees	Sole Proprietors, Independent Contractors Businesses with <500 employees	Businesses with < 15,000 employees Up to \$5 Billion in 2019 Revenue	Purchase of Corporate Bonds of min BBB-/Baa3a Rated Companies	Cannot accept PPP Must be fully or partially closed OR have 50% drop in quarterly gross receipts	Can defer until PPP loan forgiveness is accepted (if applicable)
Size of Loan or Credit	Up to \$2 million	Up to \$10 million \$20 million per Corporate Group	4x - 6x 2019 EBITDA \$500k - \$25MM Up to \$200 MM for MSELF	130 % of Issuer's max outstanding Bonds and Loans	Up to \$5,000 per Employee	Employer portion of FICA payroll taxes
Forgivable?	No 30 Year 2.5% Loan	Yes 2 Year 1% Loan for Unforgiven Amount	No 4 Year LIBOR + 3% Loan	No % varies	n/a	Repayment : 50% by end of 2021 50% by end of 2022
Available?	Only Ag Businesses	Yes	Not yet	Not yet	Yes	Yes

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