



# Year-end Tax Update

November 20, 2019

Webinar starts at noon CT



**Emily Keesling**  
Manager  
Tax Services



**Ellen Decker**  
Manager  
Tax Services

Presented by  
**AGH**   
CPAs & ADVISORS

# Administration

If you need CPE credit, please participate in all polling questions throughout the presentation.



# Administration



A recording of today's webinar will be emailed for your reference or to share with others.

# Administration



For best quality, call in by phone instead of using your computer speakers.



To ask questions during the presentation, use the questions box on the right side of your screen.

# Administration



Please provide your feedback  
at the end of today's presentation.



## Emily Keesling

Manager  
Tax Services

Emily Keesling, a certified public accountant, provides business valuation and tax planning and compliance services for individuals and businesses. She works with a wide range of industries, including manufacturing and vehicle dealerships, as well as estates and trusts.



## Ellen Decker

Manager  
Tax Services

Ellen Decker, a certified public accountant, has multiple years of experience working with non-profits and private sector entities with expertise in tax compliance and planning services. Ellen is a member of the American Institute of CPAs and Kansas Society of CPAs.



# Overview

- Depreciation
- Section 163(j) business interest expense limitation
- Small business accounting method changes
- Select non-deductible expenses
- Wayfair sales tax case
- Qualified business income (QBI) deduction
- Excess business loss limitation
- Qualified opportunity zone
- Personal tax highlights
- Estate and gift tax update



# **POLLING QUESTION #1**

Please answer for continuing education credit

# Depreciation

- 100% bonus depreciation available for new and used assets
- Eligible assets with tax life of 20 years or less
- Assets must be placed in service by December 31, 2019
- Tax planning opportunity: timing of purchases and cost segregation study



# Section 179 deduction

- \$1,020,000 maximum deduction
- Phase-out begins at asset cost of \$2.55 million
- Cannot create a taxable loss
- Qualified improvement property is eligible
  - i.e. roofing, HVAC, security systems and alarms
- Tax planning opportunity: Kansas expensing deduction for C corporations



# Depreciation

## Limitations for vehicles

- Passenger cars, light trucks, and vans with GVW under 6,000 lbs
  - \$18,100 (includes bonus depreciation)
- SUVs with GVW over 6,000 lbs but under 14,000 lbs
  - Section 179 deduction: \$25,500
- Passenger cars, light trucks, and vans with GVW over 6,000 lbs
  - No limits
- Vehicles over 14,000 lbs
  - No limits



# Business interest expense limitation

- Section 163(j) / Form 8990
- Required when...
  - Average annual gross receipts over \$26 million for prior 3 tax years, OR
  - Tax shelter
- Floor plan financing interest is not subject to limitation



# Step 1: Determine total business interest expense

Form <b>8990</b> (December 2018) Department of the Treasury Internal Revenue Service	<b>Limitation on Business Interest Expense Under Section 163(j)</b> ▶ Attach to your tax return. ▶ Go to <a href="http://www.irs.gov/Form8990">www.irs.gov/Form8990</a> for instructions and the latest information.	OMB No. 1545-0123
---	--	-------------------

Taxpayer name(s) shown on tax return	Identification number
--------------------------------------	-----------------------

**Part I Computation of Allowable Business Interest Expense**

*Part I is completed by all taxpayers subject to section 163(j). Schedule A and Schedule B need to be completed before Part I when the taxpayer is a partner or shareholder of a pass-through entity subject to 163(j).*

**Section I—Business Interest Expense**

<b>1</b>	Current year business interest expense (not including floor plan financing interest expense), before the section 163(j) limitation . . . . .	<b>1</b>			
<b>2</b>	Disallowed business interest expense carryforwards from prior years. (Does not apply to a partnership) . . . . .	<b>2</b>			
<b>3</b>	Partner’s excess business interest expense treated as paid or accrued in current year (Schedule A, line 44, column (h)) . . . . .	<b>3</b>			
<b>4</b>	Floor plan financing interest expense. See instructions . . . . .	<b>4</b>			
<b>5</b>	<b>Total business interest expense.</b> Add lines 1 through 4 . . . . . ▶	<b>5</b>			

# Step 1: Determine total business interest expense

## Section I—Business Interest Expense

<b>1</b>	Current year business interest expense (not including floor plan financing interest expense), before the section 163(j) limitation . . . . .	<b>1</b>	100,000	00		
<b>2</b>	Disallowed business interest expense carryforwards from prior years. (Does not apply to a partnership) . . . . .	<b>2</b>	50,000	00		
<b>3</b>	Partner's excess business interest expense treated as paid or accrued in current year (Schedule A, line 44, column (h)) . . . . .	<b>3</b>	0	00		
<b>4</b>	Floor plan financing interest expense. See instructions . . . . .	<b>4</b>	0	00		
<b>5</b>	<b>Total business interest expense.</b> Add lines 1 through 4 . . . . . ▶	<b>5</b>	150,000	00		



# Step 2: Calculate adjusted taxable income

## Section II—Adjusted Taxable Income

### Taxable Income

<b>6</b>	<b>Taxable income.</b> See instructions . . . . .	<b>6</b>		
----------	---	----------	--	--

#### Additions (adjustments to be made if amounts are taken into account on line 6)

<b>7</b>	Any item of loss or deduction which is not properly allocable to a trade or business of the taxpayer. See instructions . . . . .	<b>7</b>				
<b>8</b>	Any business interest expense not from a pass-through entity. See instructions . . . . .	<b>8</b>				
<b>9</b>	Amount of any net operating loss deduction under section 172 . . . . .	<b>9</b>				
<b>10</b>	Amount of any qualified business income deduction allowed under section 199A . . . . .	<b>10</b>				
<b>11</b>	Deduction allowable for depreciation, amortization, or depletion attributable to a trade or business . . . . .	<b>11</b>				
<b>12</b>	Amount of any loss or deduction items from a pass-through entity. See instructions . . . . .	<b>12</b>				
<b>13</b>	Other additions. See instructions . . . . .	<b>13</b>				
<b>14</b>	Total current year partner's excess taxable income (Schedule A, line 44, column (f)) . . . . .	<b>14</b>				
<b>15</b>	Total current year S corporation shareholder's excess taxable income (Schedule B, line 46, column (c)) . . . . .	<b>15</b>				
<b>16</b>	<b>Total.</b> Add lines 7 through 15 . . . . . ▶	<b>16</b>				

#### Reductions (adjustments to be made if amounts are taken into account on line 6)

<b>17</b>	Any item of income or gain which is not properly allocable to a trade or business of the taxpayer. See instructions . . . . .	<b>17</b>	( )			
<b>18</b>	Any business interest income not from a pass-through entity. See instructions . . . . .	<b>18</b>	( )			
<b>19</b>	Amount of any income or gain items from a pass-through entity. See instructions . . . . .	<b>19</b>	( )			
<b>20</b>	Other reductions. See instructions . . . . .	<b>20</b>	( )			
<b>21</b>	<b>Total.</b> Combine lines 17 through 20 . . . . . ▶	<b>21</b>	( )			
<b>22</b>	<b>Adjusted taxable income.</b> Combine lines 6, 16, and 21. (If zero or less, enter -0-.) . . . . . ▶	<b>22</b>				



# Step 3: 163(j) limitation calculation

Adjusted taxable income (Step Two)

Multiply by: 30%

Subtotal

Add: business interest income

Add: floor plan financing interest

Total: Maximum allowable deduction



If less than Step One, then excess is carried forward

# A few things to note

- Excess business interest expense is carried forward indefinitely
- For partnerships:
  - Allocated to partners
  - Not carried forward by entity
- For S corporations:
  - Carried forward by entity



# Small business opportunities

- Small business defined: Average gross receipts under \$26 million for 3 preceding tax years
- Opportunities...
  1. Cash basis reporting
  2. Elect out of 263A Uniform Capitalization Rules
- Accounting method changes require filing of Form 3115 – Request for Change in Accounting Method



Form **3115**

(Rev. December 2018)  
Department of the Treasury  
Internal Revenue Service

## Application for Change In Accounting Method

OMB No. 1545-2070

▶ Go to [www.irs.gov/Form3115](http://www.irs.gov/Form3115) for instructions and the latest information.

Name of filer (name of parent corporation if a consolidated group) (see instructions)		Identification number (see instructions)	
		Principal business activity code number (see instructions)	
Number, street, and room or suite no. If a P.O. box, see the instructions.		Tax year of change begins (MM/DD/YYYY)	
		Tax year of change ends (MM/DD/YYYY)	
City or town, state, and ZIP code		Name of contact person (see instructions)	
Name of applicant(s) (if different than filer) and identification number(s) (see instructions)			Contact person's telephone number

If the applicant is a member of a consolidated group, check this box . . . . . ▶

If **Form 2848**, Power of Attorney and Declaration of Representative, is attached (see instructions for when Form 2848 is required), check this box . . . . . ▶

**Check the box to indicate the type of applicant.**

- |  |  |
|--|--|
| <input type="checkbox"/> Individual  | <input type="checkbox"/> Cooperative (Sec. 1381)     |
| <input type="checkbox"/> Corporation   | <input type="checkbox"/> Partnership                 |
| <input type="checkbox"/> Controlled foreign corporation (Sec. 957)               | <input type="checkbox"/> S corporation               |
| <input type="checkbox"/> 10/50 corporation (Sec. 904(d)(2)(E))                   | <input type="checkbox"/> Insurance co. (Sec. 816(a)) |
| <input type="checkbox"/> Qualified personal service corporation (Sec. 448(d)(2)) | <input type="checkbox"/> Insurance co. (Sec. 831)    |
| <input type="checkbox"/> Exempt organization. Enter Code section ▶               | <input type="checkbox"/> Other (specify) ▶           |

**Check the appropriate box to indicate the type of accounting method change being requested.**

- See instructions.
- Depreciation or Amortization
- Financial Products and/or Financial Activities of Financial Institutions
- Other (specify) ▶

# Non-deductible expenses

## Meals & entertainment

- Meals:
  - 50% non-deductible
- Entertainment:
  - 100% non-deductible
- Recreational and social activities primarily for benefit of employees:
  - deductible



# Non-deductible expenses

## Spousal travel & gifts

- Spousal travel:
  - Generally 100% non-deductible
- Gifts
  - Gifts in excess of \$25 to any individual are non-deductible
  - Track cumulative cost of gifts by recipient for tax purposes

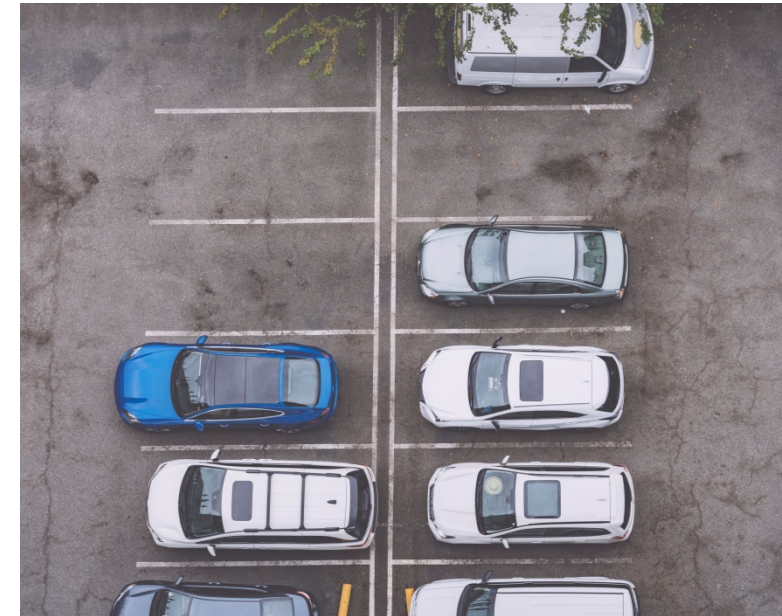


# Non-deductible expenses

## Qualified transportation fringe benefits

Categories used to determine deductibility

1. Employer pays a 3<sup>rd</sup> party for employee parking spots
  - \* Generally amount of expense paid is non-deductible
2. Employer provides transit passes or commuter vans/buses for employees
  - \* Generally amount of expense paid is non-deductible
3. Employer owns or leases all or part of a parking lot/facility
  - \* Further analysis required





# Non-deductible expenses

## Qualified transportation fringe benefits

Items to consider in determining non-deductible parking expenses:

- 1) How many parking spaces are reserved (using a barrier or sign)?
  - # Reserved for employees
  - # Reserved for general public or nonemployees
- 2) How many non reserved parking spaces are used by employees?
- 3) How many non reserved parking spaces are open to the general public?



The costs allocated to spaces reserved for employees are nondeductible. The costs allocated to spaces reserved for the general public are deductible.

50% public use exception may apply

## **POLLING QUESTION #2**

Please answer for continuing education credit

# State & local tax: South Dakota v. Wayfair

State	Economic Nexus Threshold
AL	Over \$250,000; effective 10/1/2018
AR	Over \$100,000 or 200 transactions; effective 7/1/2019
AZ	Over \$200,000 in 2019, \$150,000 in 2020 and \$100,000 in 2021; effective 10/1/2019
CA	Over \$100,000 or 200 transactions; effective 4/1/2019
CO	Over \$100,000 or 200 transactions; effective 12/1/2018 (grace period to 05/31/2019)
CT	Over \$250,000; effective 12/1/2018
DC	Over \$100,000 or 200 transactions; effective 01/01/2019
GA	Over \$250,000 or 200 transactions; effective 07/01/2019
HI	Over \$100,000 or 200 transactions; effective 07/01/2018
IA	Over \$100,000 or 200 transactions; effective 01/01/2019
ID	Over \$100,000 or 200 transactions; effective 06/01/2019
IL	Over \$100,000 or 200 transactions; effective 10/01/2018
IN	Over \$100,000 or 200 transactions; effective 10/01/2018
KY	Over \$100,000 or 200 transactions; effective 07/01/2018
KS	Over \$100,000 or 200 transactions; effective 10/01/2019**
LA	Over \$100,000 or 200 transactions; effective 01/01/2019
MA	Over \$100,000 and 100 transactions; effective 10/01/2019
MD	Over \$100,000 or 200 transactions
ME	Over \$100,000 or 200 transactions; effective 07/01/2018
MI	Over \$100,000 or 200 transactions; effective 10/01/2018
MN	Over \$100,000; effective 10/01/2018
MS	Over \$250,000; effective 09/01/2018
NC	Over \$100,000 or 200 transactions; effective 11/01/2018
ND	Over \$100,000 or 200 transactions; effective 10/01/2018
NE	Over \$100,000 or 200 transactions; effective 03/21/2019
NJ	Over \$100,000 or 200 transactions; effective 11/1/2018
NM	Over \$100,000; effective 7/1/2019
NV	Over \$100,000 or 200 transactions; effective 10/1/2018
NY	Over \$300,000 or 100 transactions
OH	Over \$100,000 or 200 transactions; effective 08/01/2019
OK	Over \$100,000; effective 11/01/2019
PA	\$100,000; effective 7/1/2019
RI	Over \$100,000 or 200 transactions; effective 11/01/2018
SC	Over \$100,000; effective 11/1/2018
SD	Over \$100,000 or 200 transactions
TN	Over \$500,000; effective 10/01/2019
TX	Over \$500,000; effective 10/01/2019
UT	Over \$100,000 or 200 transactions; effective 1/01/2019
VA	Over \$100,000 or 200 transactions; effective 7/1/2019
VT	Over \$100,000 or 200 transactions; effective 7/01/2018
WA	\$100,000 as an alternative to notice reporting (also a \$267,000 threshold B&O); effective 10/01/2018
WI	Over \$100,000 or 200 transactions; effective 10/01/2018*
WV	Over \$100,000; effective 07/01/2019
WY	Over \$100,000 or 200 transactions; effective 2/1/2019

-  Pending Litigation
-  Future Economic Nexus
-  Economic Nexus Active
-  Notice & Reporting Law Active

As of November 5, 2019

\* May be invalid due to Wisconsin Circuit Court granting temporary injunction

\*\* May be unconstitutional, KS AG released opinion opposing DOR's remote seller policy

# Qualified business income deduction

## Section 199A

- Available to owners of Partnerships, S corporations, Individuals and Trusts. *Not available to C corporations.*
- Deduction may be as high as 20% of qualified business income
- Below-the-line deduction
  - Deducted after Adjusted Gross Income (AGI)
  - Currently not deductible on Kansas return, but stay tuned!



# Qualified business income deduction

## Section 199A

- The following must be determined for each trade or business activity:
  1. The amount of Qualified Business or Specified Service income/loss for the tax year
  2. The amount of W-2 wages paid
  3. The amount of Unadjusted Basis Immediately After Acquisition (UBIA)



# Qualified business income

- Net amount of qualified items of income, gain, deduction or loss of a qualified trade or business of the taxpayer
  - Effectively connected to trade or business in U.S.
  - Included in taxable income
- Excludes
  - Capital gains and losses
  - Dividends
  - Interest other than interest property allocable to a trade or business
  - Guaranteed payments



# Qualified business income

- Rental real estate may be considered a qualified trade or business under Section 199A
  - Based on facts and circumstances- OR-
  - Meets safe harbor requirements outlined in Revenue Ruling 2019-38
- Triple Net Lease is typically not considered QBI
- Commercial and residential real estate must be treated as separate activities



# Specified Service Trade or Business (SSTB)

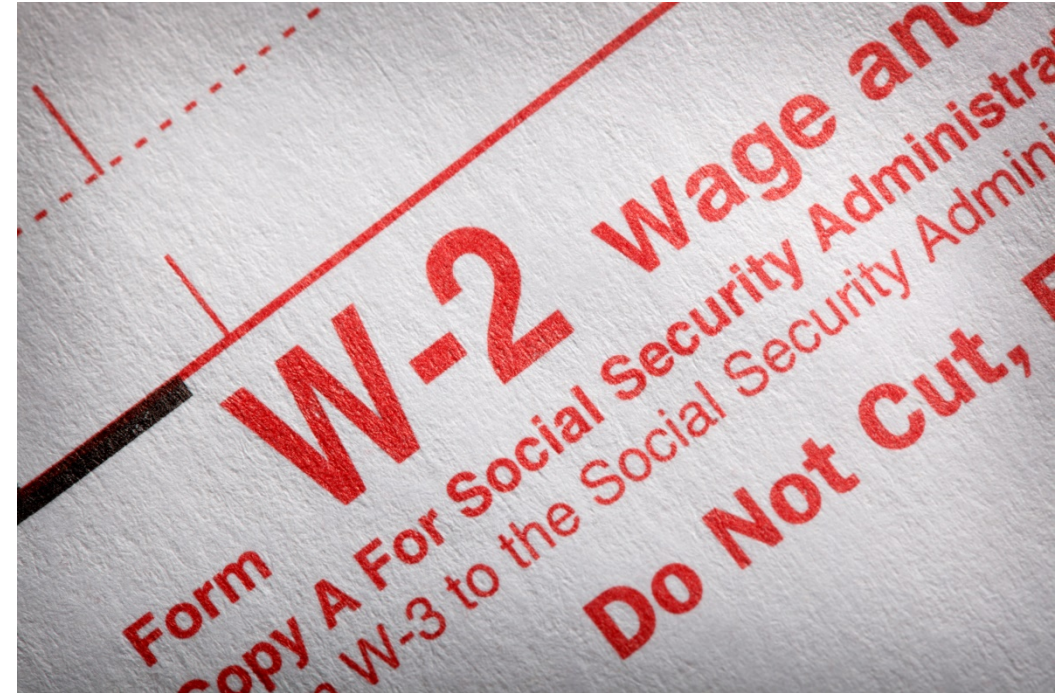
- Performance of services in health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services
- OR any business where principal asset is the reputation or skill of one or more employees or owners
- Does not include Engineering and Architecture





# Disclosure of W-2 wages & UBIA

- W-2 Wages
  - Wages that the QTB paid to its employees during the calendar year ending in the business's tax year
  - The wages must be included in the W-3
- UBIA - Unadjusted Basis Immediately after Acquisition
  - Depreciable tangible property held by and available for use in a QTB during the tax year and is held at the close of the tax year



# Qualified business income deduction

- Deduction calculated at Individual or Trust level
- Subject to multiple limitations depending on specific facts and circumstances
- Maximum deduction is 20% of qualified income



# Aggregation

## Qualified business income deduction

- Permanent election to group separate QTB's
- Preferred when wage and basis (UBIA) limitations may apply

In order to aggregate...

- Both QTB's must have same ownership group holding 50% or more ownership for a majority of the tax year.
- Must ALSO meet 2 of the 3 criteria below...
  1. They provide products, property or services that are the same or customarily offered together
  2. They share significant centralized business elements (ex. accounting and HR)
  3. They are operated in coordination with or reliance upon one or more businesses in the aggregated group



# Aggregation

---

## Qualified business income deduction

- SSTB's DO NOT qualify for aggregation
- Aggregation is allowed at both the entity and individual or trust level
- MUST disclose aggregation on the tax return
- Example: Self Rental
  - Rental or licensing activity could be aggregated with the trade or business that they rent to if qualifications are met.

# **POLLING QUESTION #3**

Please answer for continuing education credit

# Excess business loss limitation

- Applies to taxpayers other than C corporations
- Excess business loss = aggregate deductions – (aggregate gross income + threshold)
- Excess business loss is treated as net operating loss

# Excess business loss limitation

## Example

- Tom and Susan – married filing joint
- Tom's business
  - Gross income: \$200,000
  - Deductions: \$500,000
- Susan's business
  - Gross income: \$200,000
  - Deductions: \$500,000
- Excess business loss of \$90,000  
= \$1,000,000 – (\$400,000 + \$510,000)



# Excess business loss limitation

## Example

- Tim and Sarah – married filing joint
- Tim's business
  - Gross income: \$200,000
  - Deductions: \$500,000
- Sarah's wages
  - \$150,000
- Excess business loss is not applicable  
= \$500,000 – (\$200,000 + \$510,000)





# Qualified opportunity zone

- Three potential benefits
  - Gain deferral
  - Partial forgiveness of tax on gain
  - Opportunity to exclude additional gains generated within the qualified opportunity fund



# Individual income tax

- Tax Bracket Changes
- Personal Exemptions- GONE
- Higher Standard Deduction
- State and Local Taxes (aka SALT deduction)
- Miscellaneous Itemized Deductions



# Dependent credits

- \$2,000 Child Tax Credit for qualifying child
  - Phase out begins at \$200,000 AGI for Single filer and \$400,000 for MFJ
  - Refundable portion is \$1,400
- \$500 Non-Child Dependent Credit
  - Child over age 16 but under age 19
  - Full-time student under age 24
  - Disabled child
  - Dependent relative (elderly parent)
  - Non-refundable



# Planning to itemize?

- Timing of charitable giving
  - Bunching contributions
  - Contributing to a Donor Advised Fund
- Over age 70 ½ ...
  - Contributed Required Minimum Distributions
  - Keeps IRA distribution out of taxable income
- Timing of 4<sup>th</sup> quarter state estimate payment
  - Submit payment before 12/31/19 if you are under the \$10,000 SALT cap



# 529 plans & qualified tuition programs

- Can be set up on behalf of a designated beneficiary
- Earnings on contributions grow **tax free**
- Distributions for qualified education expenses are tax free
  - Updated to allow \$10,000 per student/per year to be used for qualified elementary or secondary school tuition
- Election available to spread the gifting over a 5 year period
  - Ex. \$75,000 per donee= \$15,000 gift per year



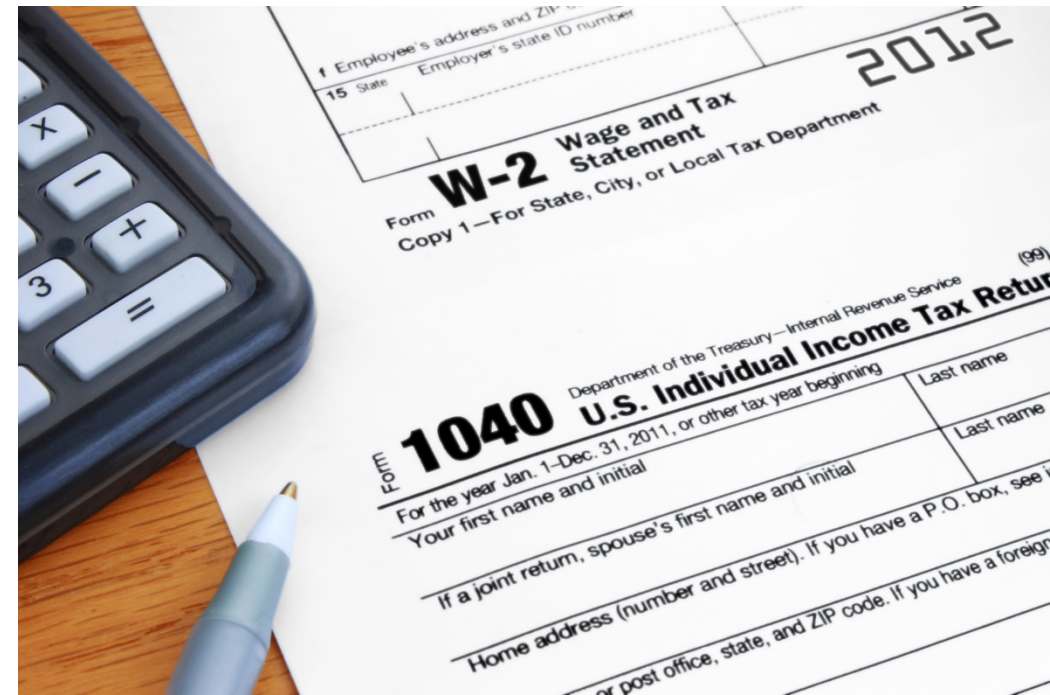
# Estate & gift tax

- Lifetime exemption for 2019 is \$11.4 million for a single taxpayer and \$22.8 million for a married couple
  - Increased exemption set to sunset in 2025
- 2019 annual exclusion is \$15,000
- Recommendation: Review your estate plan NOW



# 2019 tax forms

- Many draft forms are available for 2019
- Form 1040 schedules will be condensed from 6 to 3
- Additional basis calculations and disclosures may be required for partnership returns for tax year 2019
- To view the draft tax forms available visit...
  - <https://apps.irs.gov/app/picklist/list/draftTaxForms.html>



# **POLLING QUESTION #4**

Please answer for continuing education credit





# Tax planning opportunities

---

1. Take 100% Bonus or 179 Expensing on assets PIS before year end
2. Optimize depreciation with a Cost Segregation Study
3. File Form 3115: Request for Change in Accounting Method
4. Aggregate Qualified Business Trades or Businesses
5. Invest recognized capital gain into a Qualified Opportunity Fund
6. Consider timing and bunching of itemized expenses
7. Contribute to 529 or Qualified Tuition Program
8. Review your estate plan

# Closing thoughts

- Estate planning is still important
- Tax laws will change in the future
- Don't let the tax tail wag the dog
- You should be talking to your tax advisor **now**
- Things happen in the dark of night and behind closed doors that we cannot foresee



# Thank you for attending

## Emily Keesling

Manager, Tax Services



[Emily.Keesling@aghlc.com](mailto:Emily.Keesling@aghlc.com)



316.291.4161



[linkedin.com/in/emilykeesling](https://www.linkedin.com/in/emilykeesling)

## Ellen Decker

Manager, Tax Services



[Ellen.Decker@aghlc.com](mailto:Ellen.Decker@aghlc.com)



316.291.4051



[linkedin.com/in/deckerellen](https://www.linkedin.com/in/deckerellen)

Check out our other webinars!  
[AGHUniversity.com](http://AGHUniversity.com)

Questions NOT related to today's content?  
[Taylor.Wiele@aghlc.com](mailto:Taylor.Wiele@aghlc.com)