



2020 Taxes: What do you need to know? What should you do now?

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Webinar starts at noon CT



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Presented by
AGH
CPAs & ADVISORS



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- ✓ Certified Public Accountant (CPA)
- ✓ Works with nonprofits and private sector entities
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- ✓ Member of the American Institute of CPAs and Kansas Society of CPAs



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- ✓ Works with a wide variety of clients including manufacturers, vehicle dealerships, as well as estates and trusts
- ✓ Provides business valuation and tax planning and compliance services for individuals and businesses

2020 Legislative Highlights

- **Setting Every Community Up for Retirement Enhancement Act (SECURE) – December 20, 2019
- Families First Coronavirus Response Act (FFCRA) – March 18, 2020
- Coronavirus Aid Relief and Economic Security Act (CARES) – March 27, 2020
- Health and Economic Recovery Omnibus Emergency Solutions Act (HEROES) – To be determined...

Today's Topics

- Depreciation
- Section 163(j) business interest expense limitation
- Excess business loss limitations
- Net operating losses
- Update: Paycheck Protection Program
- Tax Cuts and Jobs Act - Reminders
- Charitable donations
- Personal tax highlights
- State and Local Tax Considerations

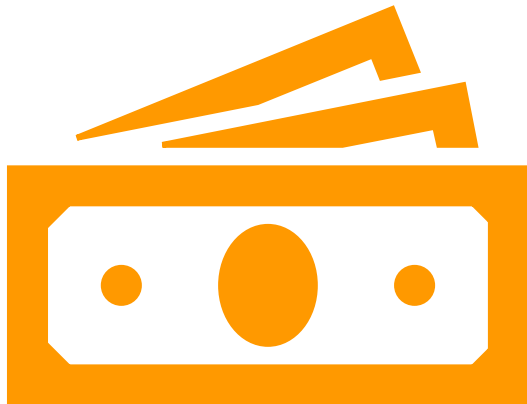
POLLING QUESTION #1

Please answer for continuing education credit

Depreciation

- 100% bonus depreciation available for new and used assets placed in service by December 31, 2020
 - Phase down to begin in 2023
 - Gone in 2027
- Eligible assets with tax life of 20 years or less
- Qualified improvement property (QIP) is 15 year now so bonus eligible

Section 179 Deduction



- \$1,040,000 maximum deduction
- Phase-out begins at asset cost of \$2.59 million
- Cannot create a taxable loss
- Select improvements are 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: \$25,000
- Passenger cars, light trucks, and vans with GVW over 6,000 lbs
 - No limits
- Vehicles over 14,000 lbs
 - No limits

Depreciation Planning

- Effective date for QIP bonus eligibility was 12/31/2017 – may be advantageous to amend 2018 or 2019 returns
 - Amended returns can be filed up to three years after the original due date of the return or the date it was filed, whichever is later
- Complete asset purchases so assets are placed in service before year end

Business Interest Expense Limitation

Section 163(j) / Form 8990

Required when...

- Average annual gross receipts over \$26 million for prior three tax years, OR
- Tax shelter

Floor plan financing interest is not subject to limitation

Business Interest Expense Limitation Changes



- TCJA
 - Limited to 30% of Adjusted Taxable Income
- CARES Act
 - Increases limitation to 50%, tax years beginning in 2019 and 2020
- Special rules for partnerships
 - Increase only applies in 2020
 - 50% of the 2019 excess business interest carryover is deductible in 2020 without limitation...normal rules apply to the remaining 50%

A few things to note...

- Elections available
 - Elect out of increased limitation
 - Elect to use 2019 adjusted taxable income for 2020 calculation
- 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

Excess Business Loss Limitation Change

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 Change

- TCJA
 - Limit on excess business losses over \$250,000 (\$500,000 MFJ) adjusted annually for inflation
 - Excess treated as NOL carryover to following year
 - Effective for tax years after 12/31/2017
- CARES Act
 - Suspends limitation for excess losses arising in 2018, 2019 and 2020
- Opportunity: Amending 2018 or 2019 return if limitation was reported on original return

Net Operating Losses

- TCJA – Tax years beginning after 12/31/2017
 - Deduction limited to 80% of taxable income
 - NOL only eligible for carryforward
- CARES Act – Tax years 2018, 2019 and 2020
 - NOL now able to offset 100% of taxable income
 - NOL eligible for carryforward or 5-year carryback



Net Operating Losses Opportunities

Did you report an NOL in
2018 or 2019?

- You can file Form 1139 (C-corp) or Form 1045 (individual) for carryback of NOL to receive refund sooner without amending returns

2018 or 2019

Dec. 31, 2020

Ability to fax in carryback forms for quicker processing rather than mail – temporary provision through 12/31/2020



Other Considerations

- NOL carryback to years with higher tax rates
- May free up tax credits for carryforward to future years
- Alternative minimum tax consideration in carryback years
- State NOL rules may differ from federal
- Future tax rates higher?

Paycheck Protection Program

Where are we now?

- The forgiveness applications are now available
- Guidance is still being issued
- Unless there is Congressional action the rules are:
- The loan forgiveness is non-taxable income
 - Reported as book income not subject to tax
- The expenses that are paid with forgiven PPP loan funds are non-deductible
 - Reported as book expenses, but not allowed as expenses for tax

POLLING QUESTION #2

Please answer for continuing education credit

A few TCJA era reminders



Meals and
Entertainment



Qualified Transportation
Fringe Benefit



Qualified Business
Income (QBI) Deduction

Non-deductible expenses: meals and entertainment



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

Non-Deductible Expenses: Qualified Transportation Fringe Benefits



Categories used to determine deductibility

1. Employer pays a third 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

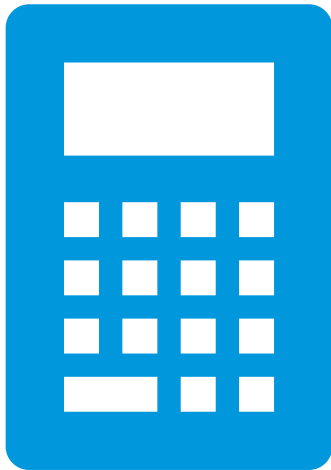
3. Employer owns or leases all or part of a parking lot/facility

*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

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)?
 - a. # Reserved for employees
 - b. # 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?

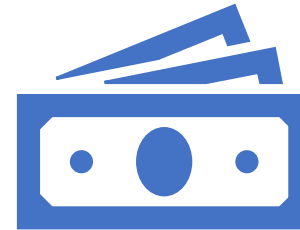
The costs allocated to spaces reserved for employees are nondeductible. The costs allocated to spaces reserved for the general public are deductible.

50% public use exception may apply

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

Deduction calculated at Individual or Trust level

Subject to multiple limitations depending on specific facts and circumstances

Deducted after Adjusted Gross Income (AGI)

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)

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 two of the three 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.

Charitable Donations CARES Act

Businesses

- C Corporation limitation for cash contributions raised to 25% (from 10%) of taxable income
- Charitable donation or advertising?

Individual

- Above the line \$300 max deduction for cash charitable contributions if you DON'T itemize
- AGI limitation raised to 100% (from 60%) for cash donations made in 2020

POLLING QUESTION #3

Please answer for continuing education credit

Individual Income Tax

- CARES Act economic impact payment (Stimulus check)
- Required Minimum Distribution age raised from 70 1/2 to 72
- The due date for 2020 tax returns is scheduled to be April 15, 2021 (not July)
 - Make sure you file or extend your return on time as the minimum late filing penalty has been raised

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 72...

- Contributed Required Minimum Distributions
- Keeps IRA distribution out of taxable income

Timing of fourth quarter state estimate payment

- Submit payment before 12/31/20 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 post secondary education expenses are tax free
 - Additionally up to \$10,000 per student/per year can be used for qualified elementary or secondary school tuition
- Election available to spread the gifting over a five-year period
 - Ex. \$75,000 per donee = \$15,000 gift per year

Estate and Gift Tax

- Lifetime exemption for 2020 is \$11.58 million for a single taxpayer and \$23.16 million for a married couple
 - Increased exemption set to sunset in 2025
- 2020 annual exclusion is \$15,000
- COVID - Valuation opportunity
- Recommendation: Review your estate plan NOW

State and Local Tax

- Non-net income taxes
 - Corporate Activity Tax
 - Oregon
 - Commercial Activity Tax
 - Ohio
 - Business & Occupation Tax
 - Washington
 - Franchise Tax
 - California
 - Texas
- Income Tax (Gross Receipts/Transaction-based)
 - Hawaii
 - Pennsylvania

2020 Tax Forms

- Many draft forms are available for 2020
- To view the draft tax forms available visit <https://apps.irs.gov/app/picklist/list/draftTaxForms.html>
- New Form 1099-NEC created for Non-Employee Compensation reporting (previously reported on 1099-MISC)
 - Form is due to be filed on or before February 1, 2021

POLLING QUESTION #4

Please answer for continuing education credit

Tax Planning Opportunities

- Take 100% Bonus or 179 Expensing on assets PIS before year end
- Optimize depreciation with a Cost Segregation Study
- Consider making additional cash contributions to charity before year end (keep your receipts!)
- Aggregate Qualified Business Trades or Businesses
- Consider timing and bunching of itemized expenses
- Contribute to 529 or Qualified Tuition Program
- 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

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