

DHG tax



Year End Tax Planning Webinar for Private or Small Businesses and Individuals
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Presenter



Nathan Clark, CPA
Partner, DHG Federal Corporate Tax
Dixon Hughes Goodman LLP
Office: 704.367.5930
nathan.clark@dhg.com
@NathanPClark

DHG tax

Presenter



Heather Alley, CPA

Partner, Professional Standards Group-Tax

Dixon Hughes Goodman LLP






Office: 828.236.5848

heather.alley@dhg.com




Private or Small Businesses

Agenda

-  Accounting Methods Planning
-  Revenue Recognition
-  Section 199A Pass-Through Business Income Deduction
-  Meals & Entertainment
-  163(j) Interest Expense Deduction Limitation
-  Depreciation & Asset Expensing Planning

Accounting Methods Planning

Improve Cashflow by Reducing Taxable Income


Acceleration of Deductions, Deferral of Revenue

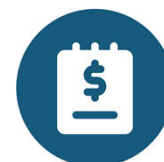
- Overall method of accounting
- Prepaid expenses
- Inventory
- Revenue recognition


Changes in Business Facts

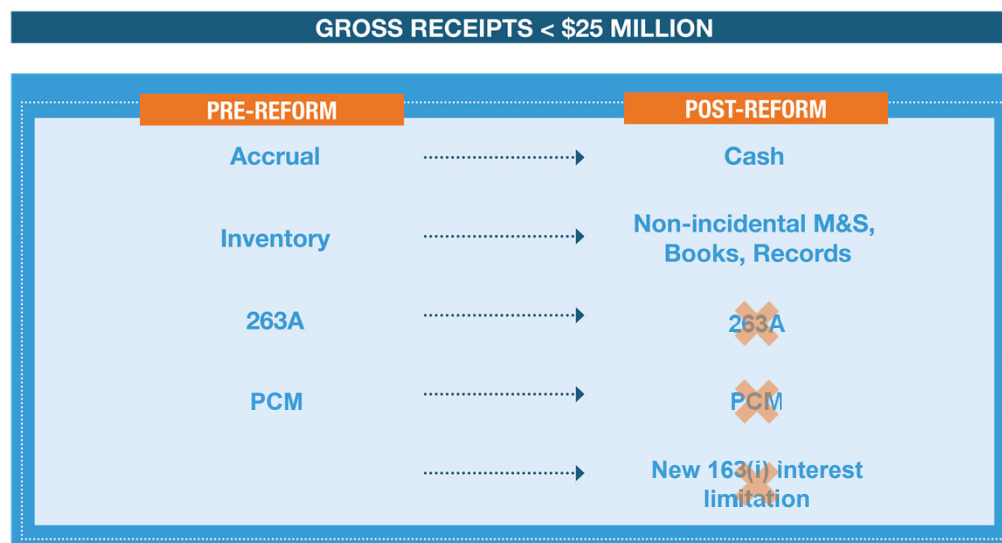
- Contract terms or policy
- Financial accounting changes


Evaluate Existing Accounting Methods

- Depreciation
- UNICAP



Accounting Methods Planning – Small Taxpayers



Revenue Recognition

- **GAAP Revenue Recognition Changes – ASC 606**
 - + Impacts timing of revenue recognition and related expenses
 - + Variable consideration
 - + Often results in acceleration of recognition of revenue
- **Tax Revenue Recognition Changes – Section 451 (TCJA)**
 - + Revenue is not recognized later than in Applicable Financial Statements
 - + Advance payments received may be deferred up to 1-year, not later than in Applicable Financial Statements
- **Proposed Regulations Issued**



Revenue Recognition

- **Spread unfavorable adjustments over 4 years – automatic accounting method changes**
- **Exclude variable consideration**
- **Acceleration of cost of sales not permitted for taxable income**
- **Planning Actions:**
 - + File accounting method changes
 - + New/different book-tax differences (Schedule M adjustments)
 - + Changes to deferred tax accounting



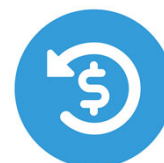
Polling Question #1

Which of the following is true for your business?

- a) Have implemented ASC 606 for book
- b) a) above and have addressed tax implications of ASC 606
- c) Have addressed impact of sec. 451 changes
- d) b) and c)
- e) None of the above

Section 199A Pass: Through Business Income Deduction

- **Deduction equal up to 20% of qualified business income**
- **Planning Actions**
 - + Identify eligible trades or businesses (ToB) and ineligible Specified Services ToB (SSTB)
 - + Evaluate limitations
 - + Minimize Wage/Property limitations
 - + De minimis exception
 - + Rental real estate
 - + Amend tax returns



Meals & Entertainment, Fringe Benefits

- **Not deductible**
 - + Entertainment
 - + Transportation fringe benefits
 - + Business expenses to provide employee commuting transportation
- **Previously 100% deductible meals are now 50% deductible**
- **Planning Actions:**
 - + Separate 100%, 50% and non-deductible costs
 - + Amend tax returns



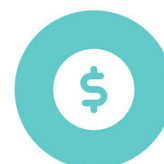
163(j) Interest Expense Deduction Limitation

- **Limit on the business interest deduction**
- **Disallowed interest deduction is carried forward**
- **Planning Actions:**
 - + Not applicable – Small Taxpayers, Exempt businesses
 - + Identify / evaluate limitations
 - + Restructure / reorganize debt
 - + Accelerate income / defer deductions to increase deduction limit



Depreciation & Asset Expensing Planning

- **Asset Expensing - Section 179**
 - + Deduct up to \$1,000,000 of eligible property
 - + Phased out at \$2,500,000 of eligible property purchased
 - + Expanded definition of eligible property



Depreciation & Asset Expensing Planning

100% bonus depreciation deduction for qualifying assets	<u>New & used</u> property	Acquired and placed in service after 9/27/2017, subject to binding contract rules
Phase down begins in 2023	Qualified Improvement Property not currently eligible	Stricter rules for (self) constructed property



Depreciation & Asset Expensing Planning



Depreciation & Asset Expensing Planning

- Where did you not claim 100% bonus depreciation?
- Cost Segregation and Fixed Asset Study
- File accounting method changes
- Be wary of binding contracts
- Plan for future purchases



Polling Question #2

Which issue is your greatest concern for tax planning?

- a) GAAP Revenue Recognition and/or new sec. 451 revisions
- b) Sec. 199A Pass-Through deduction
- c) Depreciation planning
- d) Sec. 163(j) interest deduction limitation



Individuals

Agenda

-  **Beating the Standard**
-  **Itemized Deductions**
-  **Gains and losses**
-  **Virtual reality**
-  **Act now retire later**
-  **Taking it international**

Beating the Standard

Increased Standard Deduction



Changes in Itemized Deductions

- Medical
- SALT (CAPPED)
- Mortgage Interest (REDUCED)
- Investment Interest
- Charitable
- ~~Miscellaneous Itemized previously subject 2% floor~~
- Wagering losses
- Other miscellaneous



Itemized Deductions: SALT

- **No deduction foreign real property taxes**
- **Deduction taxes limited to \$10,000**
 - + Exceptions
 - Business
 - Property taxes and other taxes that are NOT income/excise tax
 - Income/excise tax at entity level
 - Investment property (section 212 activity)
 - Property taxes and other taxes that are NOT income/excise tax



Itemized Deductions: SALT

- **Possible planning strategies – manage state taxes paid**
 - + Relocate
 - + 529 contributions in states where deduction is allowed
 - + If bonds are significant part of portfolio consider the mix
 - + ***Buy state tax credits – Film, Historic, Energy, Mill etc.*
 - + ***Establish trust in no/low income tax state to hold portfolio income assets*



Itemized Deductions: SALT

- **Possible planning strategies – manage the CAP**
 - + Establish non-grantor trust and put real estate in trust
 - + Identify and maximize exceptions (“212 Property”, business not income tax; business entity level taxes)
 - + Consider election to capitalize taxes on unimproved & unproductive real estate (266)
 - + ***State workarounds*



Itemized Deductions: SALT & Charity

- **Possible planning strategies – Charitable contributions for state tax credits?**

- + Final regulations and Notice issued effective for donations after 8/27/18
 - Contribution disallowed to extent of credit (De minimis exception)
 - Safe harbor for individuals & for businesses
- + Donations as business expenses under 162
 - Expected financial return commensurate with amount transferred directly related to business
- + State level considerations

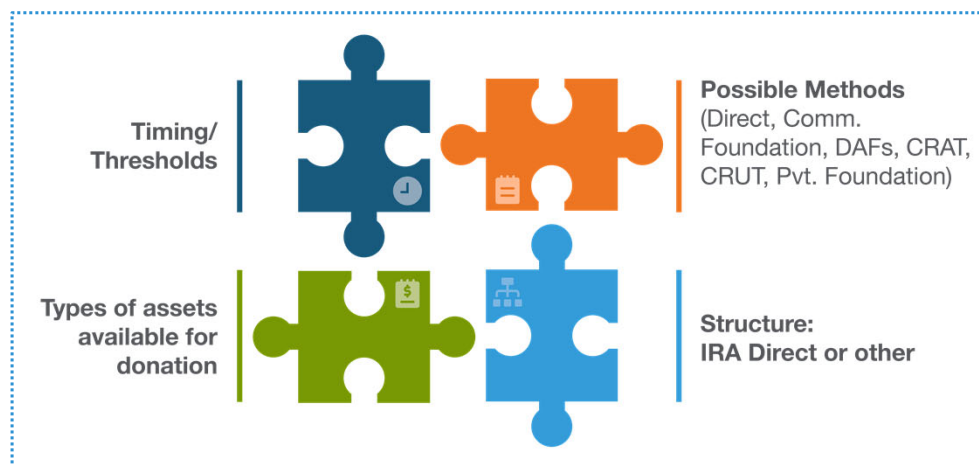


Polling Question #3

As an individual, what is the amount of your deduction if you donate \$1,000 to charity and receive \$1,000 of state income tax credits in return.

- a) \$1,000
- b) \$0
- c) \$150
- d) It depends

Itemized Deductions: Charity



Itemized Deductions

- **The death of miscellaneous itemized deductions**
 - + Investment expenses (other than interest)
 - + Hobbies
 - + Abandonment of partnership interest? – debt matters
 - + Repayment of income not meeting section 1341 requirements
 - + Unreimbursed employee expenses



Gains & Losses

- **Harvesting losses**

- + Capital loss limits and Wash sales
- + Passive Activities
- + Basis and At-Risk
- + Excess Business loss limitations
- + Abandonment
- + On the edge (Threshold considerations)



Gains & Losses

- **Harvesting gains**

- **1202 Stock**

- **Opportunity Zone Fund Investments**

- + Deferral to 2026
- + Exclusion at 2026
 - 15% - 7 yr (must invest 12/31/19 to meet by 2026);
 - 10% 5 yr
- + Exclusion on additional post 2026 gain if held 10 years



Virtual Reality: Cryptocurrency

- **Minimal IRS Guidance – Notice 2014-21; Rev Rul 2019-24; FAQs**

- + Convertible
- + Property not currency
- + Recognition
- + Type



Virtual Reality: Cryptocurrency

- **Why should you care – the IRS does**

- + John Doe Summons Coinbase
- + 10,000 Letters sent (Form Letters **6173**, 6174 & 6174A) and more on the way
- + New checkbox on schedule 1 of 2019 form 1040
- + Chief Counsel Communication on 10/22/19 – Coordination Virtual Currency Cases

- **Primary focus is non-reporters**



Polling Question #4

According to the IRS, cryptocurrency is which of the following:

- a) Currency
- b) Property
- c) Non-taxable
- d) Not an area of focus

Act Now Retire Later

- **Maximizing deductible contributions to retirement plans may reduce taxes now while building for your future**
 - + Maximize contributions to existing retirement plans and/or to IRAs
 - + Consider establishing a retirement plan
 - + Consider retirement plans on non-traditional sources – ex. bank director fees
 - + Maximize HSA contribution - even if not needed for medical
- **Start planning for you business exit strategy now to reap longer term benefits**



Taking it international: 962 election

- **Without 962 election**

- + Individual subject to tax on GILTI income
- + No 50% GILTI deduction available
- + Tax at individual tax rate
- + No credit for payment of foreign taxes by entity

- **With 962 election**

- + 50% GILTI deduction available
- + Taxes paid at 21% corporate rate
- + Indirect foreign tax credit allowed for taxes paid by entity in foreign country
- + Distributions subject to tax when received to extent exceeds tax already paid



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Questions?