ABOUT KBKG

Established in 1999 with offices across the US, KBKG provides turn-key tax solutions to CPAs and businesses. By focusing exclusively on value-added tax services that complement your traditional tax and accounting team, we always deliver quantifiable benefits to clients.

Our firm provides access to our knowledge base and experienced industry leaders. We help determine which tax programs benefit clients and stay committed to handling each relationship with care and diligence. Our ability to work seamlessly with your team is the reason so many tax professionals and businesses across the nation trust KBKG.

SERVICES OVERVIEW

Research & Development Tax Credits

Federal credit worth approximately 10% of every qualified dollar spent on developing brand new or improving existing products, processes, software, and formulae.

Cost Segregation for Buildings and Improvements

Any building improvement over $750,000 should be reviewed for proper classification of the individual components for tax depreciation, and retirement purposes.

45L Credits for Energy Efficient Residential Developments

Newly constructed or renovated apartments, condos, and tract home developments that meet certain criteria are eligible for a $2,000 credit per unit.

179D Incentive for Energy Efficient Commercial Buildings

Federal deduction worth $1.80 per square foot of energy-efficient buildings. Available to architects, engineers, design/build contractors and building owners.

IC-DISC

The Interest Charge Domestic International Sales Corporation (ICDISC) offers significant Federal income tax savings for making or distributing U.S. products for export. IC-DISC benefits are available to qualified producers or distributors that are either directly involved in exporting, or selling products to distributors or wholesalers who resell for use outside of theU.S.

Transfer Pricing Services

The cross-border transfer prices of goods, royalties, services, and loans drive how much income tax a multinational company pays by country. We assist US and international companies in establishing, documenting, and defending transfer pricing practices for the IRS and international tax authorities.

Fixed Asset Review

While a cost segregation study focuses on buildings, a comprehensive Fixed Asset Tax Review encompasses all fixed assets a company owns including real property, machinery, furniture, fixtures, and equipment.

Repair vs. Capitalization Review §263(a)

Taxpayers often capitalize major building expenditures that should be expensed as repairs and maintenance such as HVAC units, roofs, plumbing, lighting and more. Retirement loss deductions for demolished building structural components are also identified.

KBKG is a national tax specialty firm with offices across the U.S. To see if you qualify, call us or visit KBKG.com/qualify for more information.

INDUSTRY MATRIX FOR TAX SAVING OPPORTUNITIES

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

At KBKG, we are committed to identifying all possible tax saving opportunities for our clients and CPA partners. Our detailed Industry Matrix helps quickly determine which tax credits and deductions apply by industry at a glance. Our chart alone provides some insight to ensure that businesses are seeking out all potential benefits; however, KBKG's certified engineers and technical experts perform a thorough assessment during the engagement process to be sure all possible incentives are identified and considered.

INDUSTRY	R&D TAX CREDITS	REPAIR/ ASSET RETIREMENT	45L TAX CREDITS	179D TAX DEDUCTIONS	COST SEGREGATION / FIXED ASSET	IC-DISC	*TRANSFER PRICING	EMPLOYEE RETENTION TAX CREDIT
Affordable Housing		✓	✓	✓	✓			✓
Agriculture, Forestry & Fishing	✓				✓	✓	✓	✓
Architecture & Engineering	✓			✓	✓	✓		✓
Auto Dealerships		✓		✓	✓			✓
Cannabis	✓				✓			✓
Communications & Utilities	✓	✓			✓	✓		✓
Construction	✓				✓			✓
Film & Music	✓				✓	✓	✓	✓
Financial Services	✓	✓			✓		✓	✓
Government Contractors	✓			✓	✓	✓		✓
Healthcare	✓	✓		✓	✓		✓	✓
Home Builder			✓					✓
Hotels	✓	✓		✓	✓		✓	✓
Manufacturing & Distribution	✓	✓		✓	✓	✓	✓	✓
Mining	✓				✓	✓	✓	✓
Multifamily Developers		✓	✓	✓	✓			✓
Oil & Gas	✓	✓			✓		✓	✓
Pharmaceutical	✓	✓		✓	✓	✓	✓	✓
Professional Services	✓	✓			✓		✓	✓
Real Estate		✓		✓	✓			✓
Restaurants		✓			✓			✓
Retail	✓	✓		✓	✓			✓
Technology/Software	✓				✓	✓	✓	✓
Transportation	✓				✓		✓	✓
Wholesale Trade	✓	✓		✓	✓	✓	✓	✓

**May apply to any industry as long as the company has cross border subsidiaries. Industries indicated are more likely to have multinational business.*

KBKG is a national tax specialty firm with offices across the U.S. To see if you qualify, call us or visit KBKG.com/qualify for more information.

IDENTIFYING VALUE-ADDED TAX OPPORTUNITIES

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

KBKG SERVICE	DESCRIPTION & HIGHLIGHTS	APPLICABLE CLIENTS & INDUSTRIES	HOW MUCH IS IT WORTH?	TAX CONSIDERATIONS
RESEARCH & DEVELOPMENT TAX CREDITS (FEDERAL & STATE)	Federal and State tax credit – designed to promote innovation. Expenses incurred in the United States and that meet the qualification criteria can result in a credit. Qualifying expenses can include wages paid to employees, supplies used in the research process, and payments made to contractors for performing qualified research.	Clients developing brand new products, processes, software, or formula. Clients materially improving existing products, processes, software or formula. Clients that employ those with technical backgrounds including: • Manufacturing • Software Development • Architecture • High Tech • Food & Beverage • Equipment or tools • Life Sciences • Agriculture	**Federal Benefit - Roughly 10% of their total Qualified R&D Expenses** Ex.: Client has $1M/year of wages related to R&D. Benefit = $100k in gross credits per year. Many states also allow an R&D credit. For example, CA R&D Credit is worth an additional 7.5% of Qualified R&D expenses.	• Dollar-for-dollar reduction in income tax liabilities. • 1-year carryback / 20-year carryforward of unused credits. • Qualified small businesses can reduce alternative minimum tax liabilities. • Qualified start-up companies can offset up to $250,000 in payroll taxes.
COST SEGREGATION (FEDERAL & STATE)	Allows **taxpayers who have constructed, purchased, expanded, or remodeled any kind of real estate** to accelerate depreciation deductions by reclassifying building components into shorter tax lives.	Any **building with over $750k** of depreciable tax basis (excluding land). Any **leasehold improvement with over $500k** of depreciable tax basis (excluding land). Any smaller **residential rental property with over $150k** of depreciable tax basis (excluding land) can utilize KBKG's online software to generate a cost segregation report.	Net Present Value is roughly **5% of the total building cost.** Ex.: $2M office can yield an after-tax NPV of $100k.	• Reduces AMT • Starting in 2018, unused deductions carryforward. • Must recapture personal property and bonus eligible assets upon the sale of a building.
TRANSFER PRICING (INTERNATIONAL)	Federal credit for developers of **apartments, condos, or spec homes** that meet The transfer prices of goods, royalties, services, and loans drive how much income tax is paid by country. Corrections to transfer pricing may lead to significant improvements in a company's global effective tax rate. Savings dependent on differences in tax rates between countries and can be significant. Tax reform provides incentives for companies to generate income in the US with lower rates certain energy efficiency standards. Units must be certified by a qualified professional to be eligible.	All US and foreign-owned multinational companies. Transfer pricing rules apply to goods, services, royalties, loans and other cross-border transactions in all industries Companies with supply chain restructuring programs, new R&D facilities, or international subsidiaries are often best placed to realize benefits.	US tax reform has created opportunities to improve global effective tax rates through changes to transfer prices, e.g. • Foreign Derived Intangible Income ("FDII") allows C-Corporations to pay a 13.125% rate on some export income • Changes to transfer prices of imported goods may also lead to tax savings at the 21% rate. • Substantial benefits when correcting transfer pricing to utilize tax net operating losses.	Companies without transfer pricing documentation can face additional tax, interest, non-deductible penalties and double tax for all open tax years. Tax authorities are concerned about multinational companies paying their "fair share" of income tax in each country where they operate.

KBKG is a national tax specialty firm with offices across the U.S. To see if you qualify, call us or visit KBKG.com/qualify for more information.

IDENTIFYING VALUE-ADDED TAX OPPORTUNITIES

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

KBKG SERVICE	DESCRIPTION & HIGHLIGHTS	APPLICABLE CLIENTS & INDUSTRIES	HOW MUCH IS IT WORTH?	TAX CONSIDERATIONS
RESIDENTIAL ENERGY CREDITS / SECTION 45L (FEDERAL / STATES CAN HAVE SIMILAR PROGRAMS)	Federal credit for developers of **apartments, condos, or spec homes** that meet certain energy efficiency standards. Units must be certified by a qualified professional to be eligible.	Anyone that has built apartments, condos or production home developments (3 stories or less), in the last 4 years. **Generally, more than 20 units.**	**Federal credit = $2,000 per apartment/home unit.** **Many states have similar credits.** Ex.: 100-unit apartment/ condo can get $200,000 of Federal Tax Credits.	• Credit is realized when unit is first leased or sold, not placed in service. • 1-year carryback • 20-year carryforward. • Does not reduce AMT. • Subject to passive activity loss rules • Credit reduces basis.
COMMERCIAL ENERGY DEDUCTIONS / SECTION 179D (FEDERAL/ STATES CAN HAVE SIMILAR PROGRAMS)	Federal deduction for **architects, engineers, and design/build contractors** that work on public or government buildings such as schools, libraries, courthouses, military housing etc. **Also available to any commercial building owner.**	• **179D for designers:** Architects, general contractors, engineers, electrical & HVAC subcontractors. • **Any building owner or lessee:** That has constructed a commercial improvement greater than 50,000 SF since 1/1/2006.	**$.30 up to $1.80 per square foot in federal tax deductions.** Ex.: 100,000SF building is eligible for $180,000 in deductions.	• Reduces AMT • Deduction reduces basis in real property. • Designers must amend open tax years to claim. • Owners can go back to 2006 with Form 3115 to claim missed deductions.
FIXED ASSET TAX REVIEW (FEDERAL)	Comprehensive review of a company's entire fixed asset listing and supporting documents to assign appropriate tax lives, identify retirements, and correct items that should be expensed. Includes cost segregation and repair analysis.	Operations with > $40M in real property or > 500 lines of fixed assets. • Retail, restaurant, bank and hotel chains of 10 or more • Manufacturing • Utility companies	Net present value (NPV) of 5-8% of total building-related costs. Ex.: Manufacturing client has $60M of 39-year fixed assets. NPV Cash value = $3M -$4.8M	• Reduces AMT • Starting in 2018, unused deductions carryforward. • Must recapture personal property and bonus eligible assets upon the sale of a building.
REPAIR V. CAPITALIZATION REVIEW "ASSET RETIREMENT STUDY" (FEDERAL)	New rules allow you to assign value to "structural" components removed from a building and write off the remaining basis. Regs also clarify repair expense treatment of many types of building costs such as HVAC or roof replacements. KBKG also provides compliance consulting for repair and disposition regulations.	**Any building renovation costs > $400k** **Retirement Study -** Building is renovated AFTER owning it at least 1 year. Building should have **<u>> $500K of remaining depreciable basis left.</u>** **Repair Study** - renovations that include **roof, HVAC, windows, lighting, plumbing, ceilings, drywall, flooring, etc.**	Additional Year 1 deductions of **15%-40% of renovation costs (on top of benefits from 1245 reclassification)** Ex.: Client spends $3M on structural renovations. Additional Year 1 deductions of $450K-$1.2M.	• Depending on project specifics, may require a separate 3115 if doing concurrently with a depreciation change.
IC-DISC FEDERAL INCOME TAX INCENTIVE (FEDERAL)	The IC-DISC provides significant and permanent tax savings for producers and distributors of U.S.-made products and certain services used abroad.	**Any closely held, privately owned business with over $250,000 in profits from exports** • Manufacturers • Distributors • Architects & Engineers • Agriculture and Food Producers • Software Developers • Other Producers	Minimum permanent **17% decrease in tax rate on half of export profits.** Benefits can be dramatically higher by performing a transaction-by-transaction analysis.	• Requires annual filing 1120 IC-DISC. • No changes to business operations. • Benefits begin when entity is formed.

KBKG is a national tax specialty firm with offices across the U.S. To see if you qualify, call us or visit KBKG.com/qualify for more information.

KBKG SOLUTIONS FOR TAX PROFESSIONALS AND BUSINESSES
TAX CREDITS · INCENTIVES · COST RECOVERY

Qualified Improvements - Depreciation Quick Reference (updated 3/30/2020)

	Applicable PIS Dates (inclusive)	MACRS GDS Recovery Period	Bonus Dep Eligible	3 Year Rule	Unrelated Parties Rule	179 Expense Eligible	Important Notes	Code Section
Qualified **Improvement** Property (QIP): 2018 - Onward	01/01/18 - onward	15 Year / SL	Y	N	N	Y [9]	Applies to interior common areas. Building can be owner occupied. No 3-year rule. See exclusions in definition.	168(e)(6)
Qualified **Improvement** Property (QIP): 2016 - 2017	1/1/16 - 12/31/17	39 [5] Year / SL	Y	N	N	N [7]	Applies to interior common areas. Building can be owner occupied. No 3-year rule. See exclusions in definition.	168(k)(3)
Qualified **Leasehold** Improvements (QLI): 2004 - 2017	10/23/04 - 12/31/17	15 Year / SL	Y [1]	Y	Y	2010 - 2017 [6]	Landlord or lessee can make the interior improvement. See exclusions in definition.	168(e)(6)
Qualified **Leasehold** Improvements (QLI): 2001 - 2004 Partial	9/11/01 - 10/22/04	39 Year / SL	Y	Y	Y	N/A	39 year QLI qualifies for Bonus. Landlord or lessee can make the interior improvement. See exclusions in definition.	168(e)(6)
Qualified **Retail** Improvement Property: 2016 - 2017	1/1/16 - 12/31/17	15 Year / SL	Y	Y	N	2010 - 2017 [6]	Building can be owner occupied. See exclusions in definition.	168(e)(8)
Qualified **Retail** Improvement Property: 2009-2015	1/1/09 - 12/31/15	15 Year / SL	N [2]	Y	N	2010 - 2017 [6]	Building can be owner occupied. See exclusions in definition.	168(e)(8)
Qualified **Restaurant** Property: 2009 - 2017	1/1/09 - 12/31/17	15 Year / SL	N [4]	N	N	2010 - 2017 [6]	Encompasses the entire building structure as well as interior costs. Can be an acquired building.	168(e)(7)
Qualified **Restaurant** Property: 2008	1/1/08 - 12/31/08	15 Year / SL	Y	Y	N	N/A	Applicable to all improvements attached to building.	168(e)(7)
Qualified **Restaurant** Property: 2004-2007	10/23/04 - 12/31/07	15 Year / SL	N [3]	Y	N	N/A	Applicable to all improvements attached to building.	168(e)(7)

Bonus Depreciation Rates (inclusive dates)

9/11/01 - 5/5/03 [8]	30%
5/6/03 - 12/31/04 & 1/1/08 - 9/8/10 [8]	50%
9/9/10 - 12/31/11 [8]	100%
1/1/12 - 9/27/17 [8]	50%
9/28/17 - 12/31/22 [8, 10, 11]	100%
1/1/23 - 12/31/23 [8, 10, 11]	80%
1/1/24 - 12/31/24 [8, 10, 11]	60%
1/1/25 - 12/31/25 [8, 10, 11]	40%
1/1/26 - 12/31/26 [8, 10, 11]	20%

Footnotes:

1) NOT eligible for bonus if placed in service 1/1/2005 - 12/31/2007.

2) Retail Improvements are not eligible for bonus depreciation unless it meets the criteria for QLI.

3) Qualified Restaurant Property is eligible for bonus depreciation if placed in service 10/23/2004 - 12/31/2004.

4) Improvements that also meet the criteria for QLI are eligible for bonus depreciation. After 2015, improvements that also meet the criteria for QIP are eligible for bonus depreciation. Restaurant property that is acquired 9/28/2017-12/31/2017 is fully expensed (subject to written binding contract rules).

5) Improvements that meet the definition of Qualified Improvement Property and meet the definition of QLI , Qualified Retail Improvements, or Qualified Restaurant Property can be depreciated over a 15-year straight line period.

6) Eligible up to $250k from 2010 - 2015; 2016 and 2017 are subject to normal 179 expense cap.

7) Improvements that meet the definition of Qualified Improvement Property and meet the definition of QLI , Qualified Retail Improvements, or Qualified Restaurant Property qualify for the 179 Expense.

8) Long Production Period (QLIs over $1M and construction period exceeds 1 year) - can be placed in service one year after bonus normally expires. QLI (that is also LPP) started before 1/1/2012 can be entirely eligible for 100% bonus if completed during 2012. Bonus is applicable if LPP is started before 1/1/2027. Only pre-1/1/2027 basis is bonus eligible on any LPP.

9) Section 179 rules are modified to include certain improvements to buildings. See 179 Expense notes on page 2.

10) Bonus depreciation is available for used property placed in service after 9/27/17, however it is does not apply to the portion where the taxpayer previously had a depreciable interest.

11) Bonus is not available to taxpayers with floor plan financing (motor vehicle, boat, farm machinery) unless they are exempt from business interest limitations.

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

01/01/11 - 12/31/17	$500,000	$2,000,000
1/1/18 onward [1]	$1,000,000 [2]	$2,500,000 [2]

Footnotes:

1) In 2018 onward, the Section 179 expense includes improvements to the following non-residential real property that are placed in service after the date such property was first placed in service: roofs; heating, ventilation, and air-conditioning; fire protection and alarm systems; and security systems. 179 expensing does not apply to certain non-corporate lessors. See Sec. 179(d)(5)

Qualified Section 179 property now includes depreciable tangible personal property used to furnish lodging (e.g. residential rental properties, hotels, etc).

2) Any taxable year beginning after 2018, the dollar amounts will be indexed for inflation.

Definitions:

3 Year Rule: The improvements must have been placed in service by any taxpayer more than three years after the date the building was first placed into service.

Leased Between Unrelated Party Qualification: Improvements must be made subject to a lease between unrelated parties (see code section 1504). Can be made by lessees, sub-lessees or lessors to an interior portion of a nonresidential building. Parties are related when there is more than 80% ownership shared between them.

Long Production Period Property: 168(k)(2)(B) - Must have a recovery period of at least 10 years, is subject to section 263A, has an estimated production period exceeding 2 years, or an estimated production period exceeding 1 year and a cost exceeding $1,000,000.

Qualified leasehold improvement property (QLI)[A] 2001-2017 (A) Any improvement to an interior portion of a building which is nonresidential real property if— (i) such improvement is made under or pursuant to a lease (I) by the lessee (or any sublessee) of such portion, or (II) by the lessor of such portion, (ii) such portion is to be occupied exclusively by the lessee (or any sublessee) of such portion, and (iii) such improvement is placed in service more than 3 years after the date the building was first placed in service. (B) Certain improvements not included. Such term shall not include any improvement for which the expenditure is attributable to— (i) the enlargement of the building, (ii) any elevator or escalator, (iii) any structural component benefiting a common area, and (iv) the internal structural framework of the building.

Qualified retail improvement property[A] 2009-2017: Any improvement to an interior portion of a building which is nonresidential real property if— (i) such portion is open to the general public and is used in the retail trade or business of selling tangible personal property to the general public, and (ii) such improvement is placed in service more than 3 years after the date the building was first placed in service. QRIP shall not include any improvement for which the expenditure is attributable to— (i) the enlargement of the building, (ii) any elevator or escalator, (iii) any structural component benefitting a common area, or (iv) the internal structural framework of the building.

Qualified restaurant property[B] 2004-2008: an improvement to a building if— (A) Such improvement is placed in service more than 3 years after the date such building was first placed in service, and (B) more than 50 percent of the building's square footage is devoted to preparation of, and seating for on-premises consumption of, prepared meals.

Qualified restaurant property[B] 2009-2017 Any section 1250 property which is (i) a building or improvement to a building — if more than 50 percent of the building's square footage is devoted to preparation of, and seating for on-premises consumption of, prepared meals, and (ii) if such building is placed in service after December 31, 2008

Qualified improvement property[A] (QIP) 2016-2017: (A) Any improvement to an interior portion of a building which is nonresidential real property if such improvement is placed in service after the date the building was first placed in service. (B) Certain improvements not included. Such term shall not include any improvement for which the expenditure is attributable to— (i) the enlargement of the building, (ii) any elevator or escalator, (iii) the internal structural framework of the building.

Qualified improvement property[A] (QIP) 2018-onward: (A) Any improvement *made by the taxpayer* to an interior portion of a building which is nonresidential real property if such improvement is placed in service after the date the building was first placed in service. (B) Certain improvements not included. Such term shall not include any improvement for which the expenditure is attributable to— (i) the enlargement of the building, (ii) any elevator or escalator, (iii) the internal structural framework of the building.

Other notes:

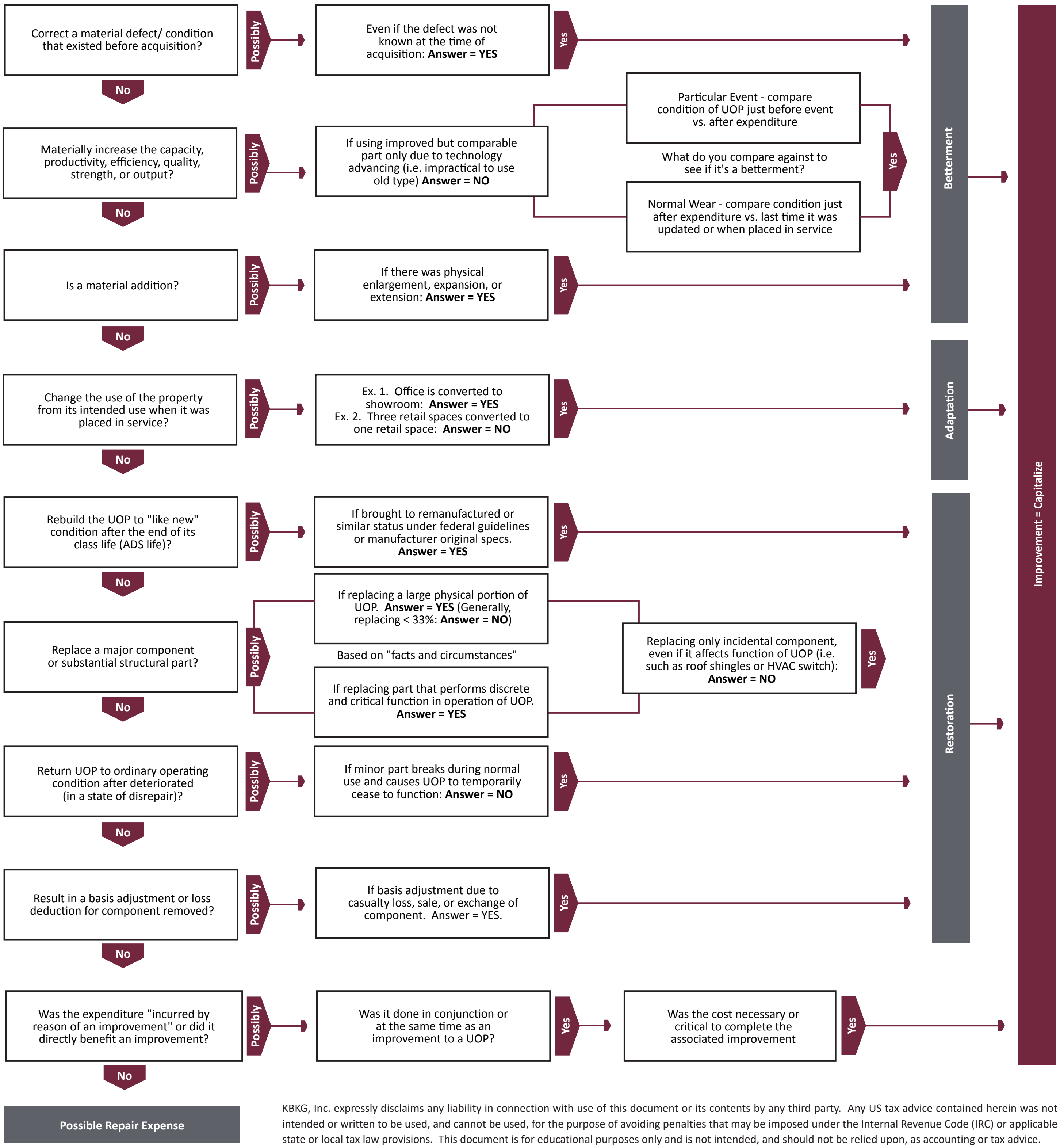
A) Tenant improvements that include costs for HVAC rooftop units are excluded from the definition of Qualified Leasehold Improvements (QLI), Qualified Retail Improvements, and Qualified Improvement Property (CCA 201310028)

B) Restaurant tenant improvements located within a multi-tenant building where 50 percent of the building's total square footage is not leased to restaurants, do not meet the definition of Qualified Restaurant Property.

KBKG REPAIR VS. CAPITALIZATION:
IMPROVEMENT DECISION TREE - FINAL REGULATIONS

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

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



KBKG is a national tax specialty firm with offices across the U.S. To see if you qualify, call us or visit KBKG.com/qualify for more information.

KBG BUILDING UNIT OF PROPERTY & MAJOR COMPONENTS CHART

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

This chart was created to help users identify building systems & typical "major components" in real estate assets. Replacing a major component is a capital expenditure while replacing an incidental component can be expensed

BUILDING STRUCTURE	LAND IMPROVEMENTS	HVAC SYSTEM	ELECTRICAL SYSTEM	PLUMBING SYSTEMS
• Roof system (membrane, insulation and structural supports) • Foundation • Other structural load-bearing elements, including stairs • Exterior wall system • Ceilings • Floors • Doors • Windows • Partitions • Loading docks	• Landscaping (shrubs, trees, ground cover, lawn, irrigation) • Storm drainage (inlets, catch basins, piping, lift stations) • Site lighting (pole lights, bollard lights, up lights, wiring) • Hardscape (retaining walls, pools, water features) • Site structures (gazebos, carports, monument signs) • Paving (roads, driveway, parking areas, sidewalks, curbing)	• Heating system (boilers, furnaces, radiators) • Cooling system (compressors, chillers, cooling towers) • Rooftop packaged units • Air distribution (ducts, fans, etc.) • Piping (heated, chilled, condensate water)	• Service and distribution (panel boards, transformers, switchgear, metering) • Lighting (interior and exterior building mounted) • Site electrical utilities • Branch wiring (outlets, conduit, wire, devices etc.) • Emergency power systems	• Plumbing fixtures (sinks, toilets, tubs etc.) • Wastewater systems (drains, waste and vent piping) • Domestic water (supply piping and fittings) • Water heaters • Site piping utilities

FIRE PROTECTION SYSTEM	SECURITY SYSTEM	GAS DISTRIBUTION SYSTEM	ESCALATORS	ELEVATORS
• Sprinkler systems (piping, heads, pumps) • Fire alarms (detection and warning devices, controls) • Exit lighting and signage • Fire escapes • Extinguishers and hoses	• Building security alarms • (detectors, sirens, wiring) • Building access and control systems	• Gas piping including to/ from property line and other buildings	• Stairs and handrails • Drive systems (motors, truss, tracks)	• Elevator cars • Drive systems (motors, lifts, controls) • Suspension systems (counterweights, framing, guide rails)

* Building unit of property (UOP) rules apply to each building structure located on a single property.
** Building system components with a different tax life are separate units of property. For example, a cost segregation study separating HVAC into 5-year & 39-year categories for a restaurant creates two separate HVAC units of property.

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

Definitions

Plant Property: Machinery and equipment used to perform an industrial process such as manufacturing, generation, warehousing, distribution, automated materials handling, or other similar activities.
Network Assets: Railroad track, oil and gas pipelines, water and sewage pipelines, power transmission and distribution lines, telephone and cable lines; -- owned or leased by taxpayers in each of those respective industries.
Major Component: Part or combination of parts that performs a discrete and critical function in the operation of the unit of property.
Incidental Component: Relatively small, inexpensive, or minor part that performs a discrete and critical function for the UOP. Generally, not capitalized because of its size, cost, or significance.

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.

KBKG is a national tax specialty firm with offices across the U.S. To see if you qualify, call us or visit KBKG.com/qualify for more information.

179D, Energy Efficient Commercial Building Deduction for Architectural Firms

Andy Gerstenhaber

- Sr. Regional Director at KBKG
- 12 years of experience with credits and incentives
- Has helped the AEC industry nationally take advantage of over a 1B in 179D Deductions
- Published in AIA Newsletter discussing 179D

Brandon Val Verde, CEPE

- Director within Green Building Tax Incentive (GBTI) Department at KBKG
- Started at KBKG in 2009
- Certified Energy Plans Examiner
- Experience as an energy and lighting auditor.
- Sonoma State University
  - Environmental Studies and Energy Management & Design
- Member of the Real Estate Roundtable Sustainability Policy Advisory Committee (SPAC).

CLIENT-CENTRIC FIRM SINCE 1999

NATIONWIDE SERVICES

Offices and representatives located across the US

PIONEERS

One of the first independent engineering tax firms in the country

THOUSANDS OF TAX PROJECTS PERFORMED

Resulting in hundreds of millions of dollars in benefits for our clients

THOUGHT LEADERS

Nationally-recognized public speakers and authors

PREFERRED PROVIDER

For thousands of CPAs across the country

EDUCATORS

Over 25,000 hours of CPE issued

DIVERSE TEAM

Tax specialists, attorneys, energy consultants and engineers from various disciplines

LOCATIONS

WEST

Pasadena, CA
Woodland Hills, CA
Valencia , CA
West Los Angeles, CA
San Diego, CA
Sacramento, CA
Phoenix, AZ

MIDWEST

Chicago, IL
Columbus, OH
Detroit, MI

SOUTHEAST

Atlanta, GA
Boca Raton, FL

SOUTH

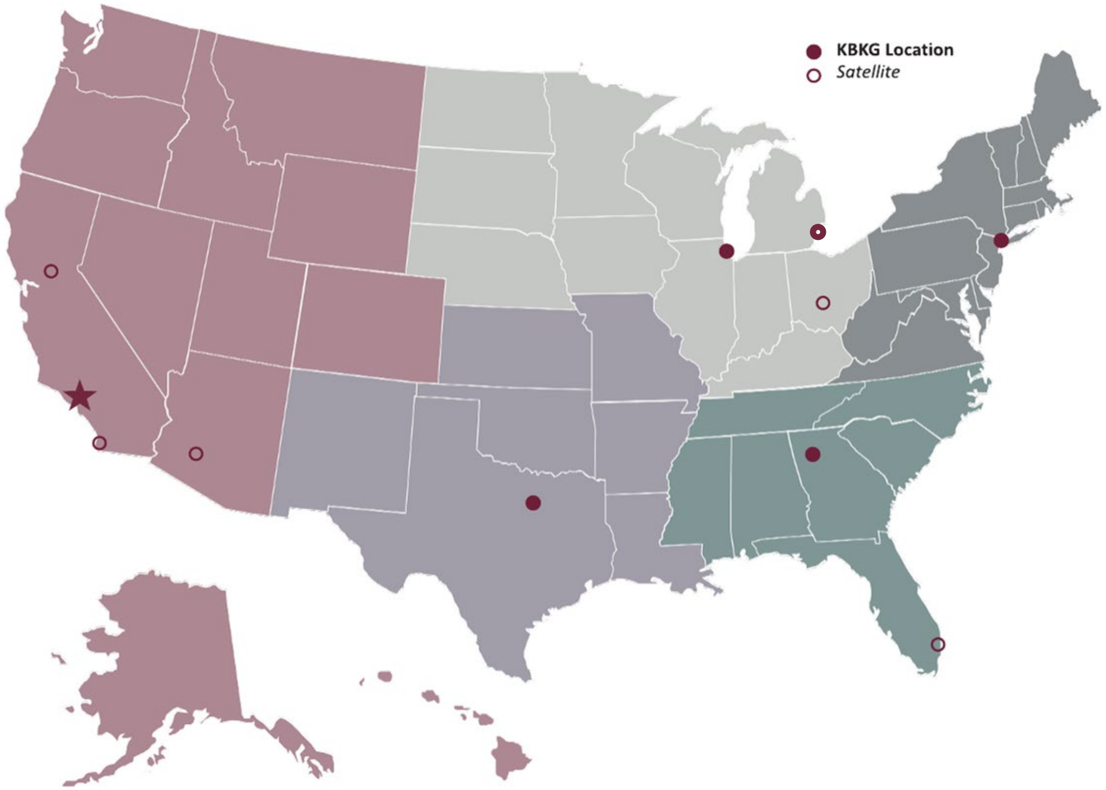
Dallas / Fort Worth, TX

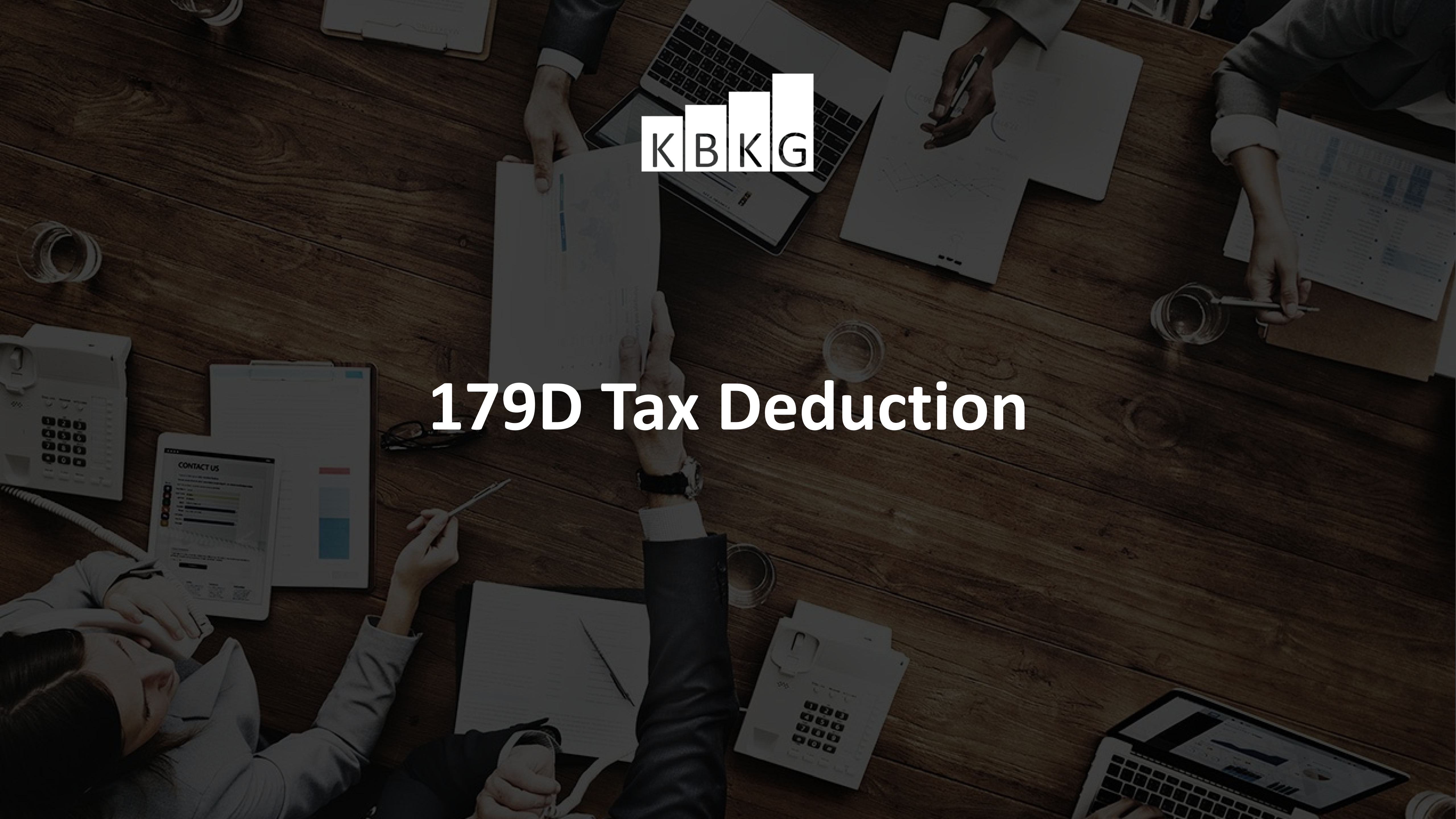
NORTHEAST

New York, NY

KBKG has offices strategically placed nationwide to better serve our clients.

Our representatives, located all over the country, are experienced in the local markets and regions they support.





KBKG

179D Tax Deduction

§179D ENERGY EFFICIENT COMMERCIAL BUILDING DEDUCTION

- Permanent tax deduction as of Dec 2021
- IRC Section 179D allows for an immediate deduction of up to $1.80*/sf for "commercial buildings".
- 50% reduction in total energy and power costs for the building envelope, lighting, HVAC & hot water systems in comparison to ASHRAE Standards in place 2 years prior to the beginning of construction**
    - Building Envelope - $0.60*/sf
    - Interior Lighting - $0.60*/sf
    - HVAC & Hot Water - $0.60*/sf
- Projects Placed in Service in 2020 and prior compared to the 2001 or 2007 standards

**Deduction amounts adjusted for inflation*

§179D TAX DEDUCTION
WHO BENEFITS?

- Whoever makes investment and places the energy efficient property in service for its first use
  - Building owner or landlord
  - Tenant
- Or
  - Designers of government/municipal-owned buildings:
    - Architects
    - Engineers
    - Contractor (involved in technical specifications)
    - Environmental Consultant
    - Energy Services Provider

§179D TAX DEDUCTION - SPECIAL RULE FOR GOVT OWNED BUILDING

- Government entity/local municipality may allocate 179D deduction to the designer(s) in year of completion.

- Government entity/local municipality can allocate to primary designer or among several designers.
    - Designer, architect, engineer, contractor, environmental consultant, or energy services provider who creates the technical specifications that incorporate energy efficiency.

§179D TAX DEDUCTION - WHAT BUILDING TYPES ARE ELIGIBLE?

- "Commercial Buildings" includes
  - Public & government buildings:
    - K-12 schools
    - Public universities/community colleges
    - Residential housing (4 stories or greater)
    - Libraries
    - Courthouses
    - Parking garages
    - Prisons
- Currently excludes non-profit owned buildings

§179D TAX DEDUCTION - WHAT TYPE OF CONSTRUCTION IS ELIGIBLE?

- Ground up construction
- Renovations and retrofits
  - Applies to affected square footages (rate x sf)
- Recently extended permanently
- Must be located in the United States

§179D TAX DEDUCTION - VARIOUS WAYS TO ACHIEVE DEDUCTION

Eligible Time Period	Fully Qualifying Property	Partially Qualifying Property			
		Envelope	HVAC	Lighting Permanent Rule	Interim Lighting Rule
1/1/06 to 12/31/08: Energy & Power Cost Savings*	50%	16-2/3% or 10%	16-2/3% or 20%	16-2/3% or 20%	25% to 40% LPD Reduction (50% LPD Reduction for Warehouse) + other factors
1/1/09 to 3/11/12: Energy & Power Cost Savings*		10%	20%	20%	
3/12/12 to 12/31/13: Energy & Power Cost Savings*		10%	20% or 15%	20% or 25%	
1/1/14 to 12/31/20: Energy & Power Cost Savings*		10%	15%	25%	
1/1/21 and beyond Energy & Power Cost Savings**		10%***	15%***	25%***	
Tax Deduction	$1.80/sf	$0.60/sf	$0.60/sf	$0.60/sf	$0.30 to $0.60/sf (using applicable % from IRS Notice 2006-52)

*Compared to a Reference Building that meets either 2001 or 2007 energy standards
**Compared to a Reference Building that meets standards in place 2 years before construction began
***Could change upon release of anticipated IRS Notice

§179D TAX DEDUCTION - BENEFIT EXAMPLE OF 100,000 SF BUILDING

	1 system $0.60 / sf	2 systems $1.20 / sf	3 systems $1.80 / sf
Tax Deduction	$60,000	$120,000	$180,000
Cash Benefit (Govt A&E)	$21,000	$42,000	$63,000

Assume Federal Tax Rate = 35%

§179D TAX DEDUCTION CASE STUDY #1 CLASSROOM BUILDING

- University Classroom Building in Southern California
- Tax Deduction = $124,769
  - 69,316 sf * $1.80 per sf
- 3 Systems Qualified
  - Envelope System
    - High Performance Glazing (PPG Solarban)
  - Mechanical Systems
    - VAV Air Handlers
    - VRF Fan Coil Units
    - Heat Recovery Ventilation
  - Interior Lighting Systems
    - LED Fixtures throughout
    - Daylighting Controls
    - Occupancy Sensors

§179D TAX DEDUCTION CASE STUDY #2
PUBLIC MIDDLE SCHOOL BUILDING

- Public Middle School Building in Texas
- Tax Deduction = $175,180
  - 97,322 sf * $1.80 per sf
- 3 Systems Qualified
  - Envelope System
    - Continuous insulation at Roof
    - R-19 Batt insulation between steel studs
    - High Performance Glazing (PPG Solarban)
  - Mechanical Systems
    - Air-cooled chillers
    - Demand Control Ventilation
    - Condensing water heaters
  - Interior Lighting Systems
    - LED Fixtures throughout
    - Occupancy Sensors

§179D TAX DEDUCTION CASE STUDY #3 COURTHOUSE BUILDING

- County Courthouse Building in South Dakota
- Tax Deduction = $228,762
  - 127,090 sf * $1.80 per sf
- 3 Systems Qualified
  - Envelope System
    - High Performance Glazing
    - Continuous Insulation at Roof
    - Continuous Insulation at Exterior Walls
  - Mechanical System
    - High Efficiency Chillers
    - Geo-Exchange System
    - Condensing Boilers
    - Heat Recovery System
  - Interior Lighting System
    - 2-tube T-8's throughout
    - Occupancy Sensors

§179D TAX DEDUCTION CASE STUDY #4 PARKING GARAGE

- Parking Garage Building in New Jersey
- Tax Deduction = $157,143
  - 261,905 sf * $0.60 per sf
- 1 System Qualified
  - Interior Lighting Systems
    - 54% reduction in lighting power
    - LED Fixtures throughout

§179D TAX DEDUCTION PROCESS & TAX CONSIDERATIONS

- Process:
  - Obtain certification package from Qualified 3rd party
  - Identify recent projects PIS within eligible time period
  - Prepare and obtain signed allocation letter
  - Energy simulation modeling
  - On site inspection and certification
  - Reported on the “Other Deduction” line with a description of “Section 179D Deduction”
    - No special form required

- Tax Considerations:
  - Deduction will be applied to the tax return the year the project was completed
  - Must amend to claim the deduction retroactively
  - Deduction can reduce AMTI
  - Deduction limited to amount invested in energy efficient improvements

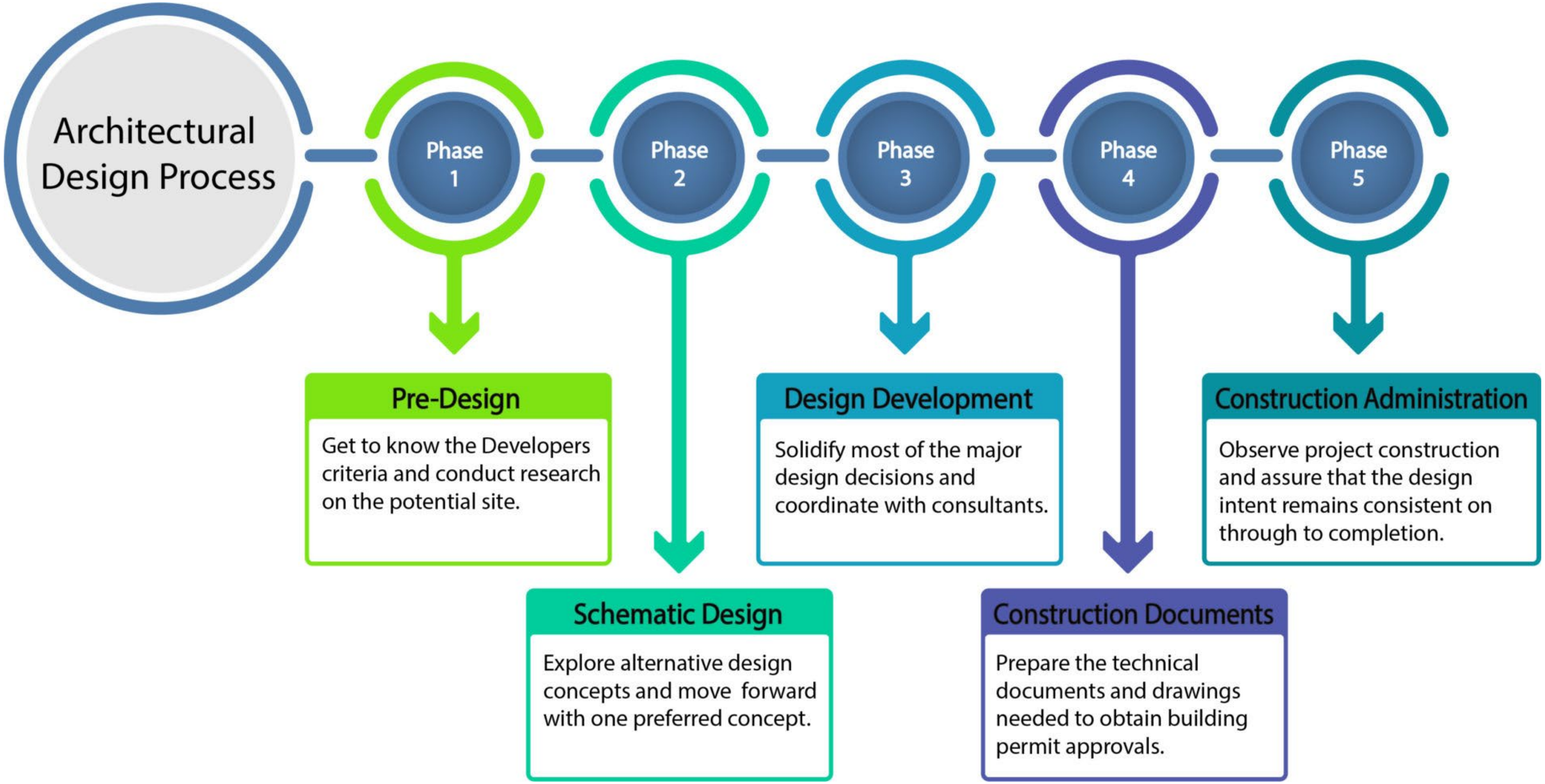
§179D TAX DEDUCTION CONSIDERATIONS & TAKE AWAYS

- 179D recently made permanent
- Special Rule for Designers of Government/Municipal Owned projects
  - Example: 100k x $1.80/sf = $180,000 Deduction
- Allocation Letters are first come, first served
  - Multiple Designers
- Statute of Limitations is expiring for projects PIS in 2018

OTHER TAX INCENTIVES FOR ARCHITECTS

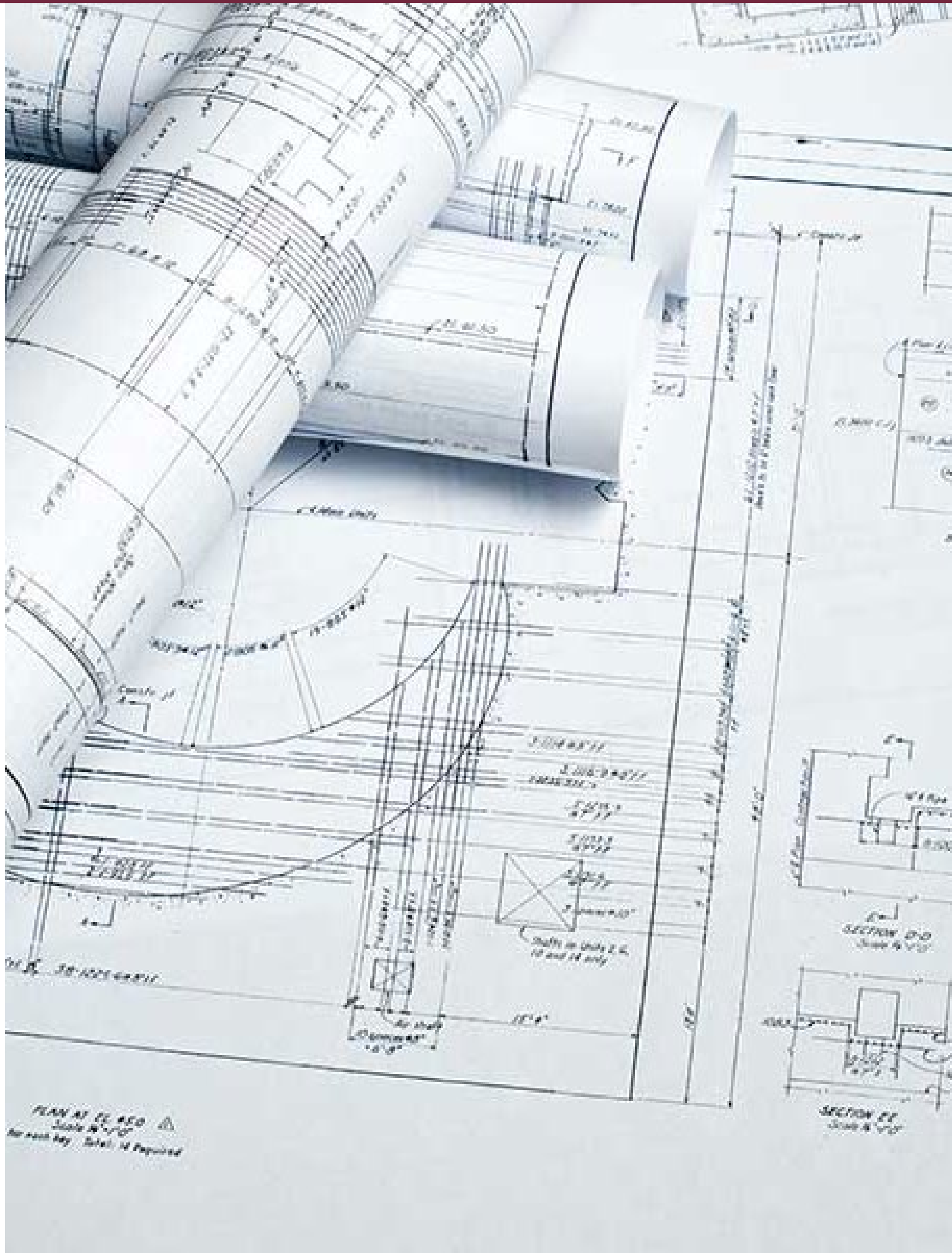
- R&D Tax Credit
- Employee Retention Tax Credit
- IC-DISC

R&D TAX CREDIT FOR ARCHITECTS



R&D TAX CREDIT FOR ARCHITECTS

- Tax Credit
- Receive up to 12-16 cents of federal and state R&D tax credits for every qualified dollar
- Carry forward the credit up to 20 years
- Perform look back studies to recognize unclaimed credits for open tax years (generally 3 or 4 years)



QUESTIONS & ANSWERS

BRANDON VAL VERDE, CEPE

Director – Green Building Tax Incentives
877.525.4462 x146
brandon.valverde@kbkg.com

kbkg.com/management/brandon-valverde

ANDY GERSTENHABER

Sr. Regional Director
877.525.4462 x 548
andy.gerstenhaber@kbkg.com

kbkg.com/management/andy-gerstenhabe

linkedin.com/in/andy-gerstenhaber