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 U.S. based 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. Most states also allow an R&D credit that can be added on top of the federal credit. These state credit qualifications may vary.	• 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 (AMT) liabilities. • Qualified startup companies can offset up to $500,000 in payroll taxes starting in tax year 2023.
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.
COMMERCIAL ENERGY DEDUCTIONS / SECTION 179D (FEDERAL/ STATES CAN HAVE SIMILAR PROGRAMS)	Federal deduction for **Architects, engineers, and design/build contractors** that design tax-exempt owned buildings (government/municipal & non-profit) such as schools, libraries, courthouses, etc. **Also available to any commercial building owner.**	• **179D for designers:** Architects, Mechanical Engineers, Electrical Engineers, Design/Build Contractors, and Building Automation companies. • **Any building owner or lessee:** That has constructed a new construction or significant renovation after 1/1/2006.	**A federal tax deduction up to $5.00 per square foot.** Ex.: 100,000 square foot building is eligible for up to $500,000 in deductions.	• Reduces AMT • Deduction reduces basis in real property for building owners. • Designers must amend open tax years to claim. • Owners can go back to 2006 with a Form 3115 to claim past deductions.
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 can be up to $5,000 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.

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

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
EMPLOYEE RETENTION CREDIT (FEDERAL & STATE)	The Employee Retention Credit (ERC) is a refundable tax credit for businesses that continued to pay employees while shut down due to the COVID-19 pandemic or had significant declines in gross receipts from March 13, 2020 to September 30, 2021.	Businesses that 1. Sustained a full or partial suspension of operations due to COVID-19 and orders from an appropriate governmental authority or 2. Experienced a significant decline in gross receipts during 2020 or the first three quarters of 2021 compared to 2019 or 3. Qualified in the third or fourth quarter of 2021 as a recovery startup business.	For 2020 , there is a maximum credit of $5,000 per eligible employee. For 2021, there is a maximum credit of $7,000 per eligible employee, per quarter (Q1- Q3 only).	The deadline for filing 2020 is April 2024 and the 2021 deadline is April 2025.
TRANSFER PRICING (INTERNATIONAL)	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.	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.
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.
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.

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.