TAX PLANNING FOR THE BALANCE OF 2020

Opportunities to Reduce Tax Bills and Generate Cash

The disruption resulting from the COVID-19 pandemic, legislative stimulus changes to the tax code, and the impending federal election have created a unique tax environment for the second half of 2020. We are here to help you navigate the opportunities to minimize what you owe in taxes not only for 2020, but in the years ahead. Here are several tax relief measures you may want to explore.

LIQUIDITY

Issue	Consideration
Experiencing significant operating losses	▪ The CARES Act allows corporations, individuals, trusts, and estates that incurred net operating losses (NOLs) in 2018, 2019, or 2020 to carry back those losses to the five previous tax years to offset 100% of the income from those years. ▪ This procedure could open the door to quick refund claims.
Tax burden on non-corporate loss deduction limitations	▪ Non-corporate taxpayers are no longer subject to the TCJA limitations on excess business losses for the 2018-2020 tax years. If you experienced (or were allocated) losses in 2018, 2019, or expect significant losses in 2020, you may be able to offset tax obligations due for 2019, and/or file refund claims from 2018.
Employer Payroll Tax Deadlines	▪ Organizations can take full advantage of the payroll tax holiday in 2020 to help retain cash for other business needs, regardless of whether their Small Business Administration Paycheck Protection Program (PPP) loan is forgiven. These amounts must be repaid in 2021 and 2022.
Operations were entirely or partially suspended due to COVID-19 shutdown order	▪ If your operations were suspended either partially or entirely, or you experienced a 50% decline in gross receipts compared to the same quarter last year that was attributable to COVID-19, and you did not receive a PPP loan, you may be eligible for the Employee Retention Credit. ▪ It provides a 50% payroll tax credit on a certain amount of wages for the period between March 13 and Dec. 31, 2020. The credit can be claimed quarterly, reducing required deposits of payroll taxes
Incurred losses directly attributable to the pandemic	▪ When the President declared the pandemic a federal disaster on March 13, 2020, it opened the door for individual and business taxpayers to consider elections under Code Section 165(i). This permits taxpayers to claim a 2020 loss attributable to the federally declared disaster (potentially including stock losses) on their 2019 tax returns (which may not be due until October 15), accelerating the tax benefit and providing immediate access to cash.

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TAX SAVINGS

Issue	Consideration
Significant new product development or business line activity	▪ Expansion of business lines or activities may qualify as research activities and be eligible for refund opportunities and reductions. Start-ups can use this federal tax credit to offset payroll tax costs, as well.
Expanding into new markets	▪ States often offer credits and tax incentives to encourage hiring and building locally. Consider enlisting the help of a tax incentive specialist early in the physical expansion to pinpoint possible opportunities.
Revenues heavily affected by pandemic	▪ If your organization experiences significant declines to its 2020 revenues, it may now qualify as a small taxpayer. Taxpayers (other than tax shelters) with less than $26 million in average gross receipts over the three consecutive years are eligible for the cash method of accounting, which may present opportunities to minimize taxes, simplify reporting, and make tax obligations more predictable.
Business interest expenses incurred	▪ The CARES Act temporarily increases the size of the deduction related to business interest expenses for the 2019 and 2020 tax years from 30% to 50% of adjusted taxable income. This may result in refund opportunities and reductions in estimated tax deposits. Partnerships will only be able to use the 50% threshold in 2020.
Recent interior improvements to business property	▪ If you made significant improvements to the interior of non-residential property during 2018 or 2019, you may be eligible to claim 100% bonus depreciation on those repairs because Congress fixed the “retail glitch” fix in the CARES Act. Bonus depreciation permits businesses to immediately write-off building improvements with depreciable lives shorter than 20 years, reducing tax liabilities.
Made energy-efficiency modifications in the past two years	▪ The Taxpayer Certainty and Disaster Tax Relief Act of 2019 retroactively reinstated a deduction for green buildings that meet certain efficiency metrics, thereby extending the opportunity to claim deductions and incentives for certain improvements made through Dec. 31, 2020.
Eligible for Corporate AMT Credit	▪ Corporations with carryforwards of Alternative Minimum Tax (AMT) credits may accelerate refunds of prior AMT credits into the 2018 or 2019 tax years. AMT refund applications must be received by Dec. 31, 2020.
Employees affected by COVID-19 absences	▪ Payroll tax credits are available for employers with 500 or fewer employees who provide the COVID-19 sick or family leave established by the Families First Coronavirus Response Act (FFCRA). The FFCRA benefits are not affected by receipt of PPP loans.
Discussion about making an S-to-C corporation conversion	▪ The impact that COVID-19 had on financial markets may have negatively affected business values, but this may mean that the tax barriers for converting an S corporation to a C corporation have been reduced.
Selling real property	▪ Companies planning on selling real property and using the proceeds toward a future property purchase may be able to defer the tax on realized gains by treating the transaction as a like-kind exchange. Use of a Delaware Statutory Trust may be available to provide diversification and allow passive participation.
Hold eligible Qualified Opportunity Zone investments of funds	▪ The pandemic extended several of the deadlines for the program’s incentive to reinvest capital gains into a qualifying QOZ investment or fund in order to defer (or even eliminate) capital gains tax.
Recently upgraded or acquired property	▪ Newly modified or acquired property may be eligible for tax deduction benefits, including bonus depreciation and tangible property opportunities.

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MINIMIZING COMPLIANCE RISKS

Issue	Consideration
Multi-state operations	▪ State and local tax requirements vary across jurisdictions, and there may be opportunities to reduce your obligations through potential rebates, refunds, abatements, voluntary disclosure agreements, and other state and local tax benefits.
Unclaimed property Issues	▪ Abandoned or unclaimed property that remains on your books results in state escheatment exposure, but a review can mitigate and remedy such exposure prior to subjecting the property to a contingent fee audit.
Increased remote business activities	▪ With drop shipping on the rise and new to many organizations, 2020 is a good time to consider a state and local tax nexus study to identify new or different state and local tax obligations and mitigate tax compliance risks.
Partnerships that haven't updated tax capital reporting	▪ Starting in 2020, all partnerships have a new tax capital reporting requirement that requires substantial documentation and tracking to meet. To ensure timely and accurate compliance for 2020, begin the process of gathering this information.

INTERNATIONAL BUSINESS OPERATIONS

Issue	Consideration
Global intangible low-tax income	▪ Analysis of international operations may indicate if your organization can make an election to exclude income generated in foreign subsidiaries that is subject to a foreign effective tax rate of at least 18.9%.
Substantial losses in a foreign subsidiary	▪ Take a look at an underperforming foreign subsidiary's liquidating and potential value of its assets. If an identifiable event has occurred, your corporation may be eligible to claim an ordinary loss deduction on the worthlessness of the foreign subsidiary.

WEALTH TRANSFER

Issue	Consideration
Business interests in your estate	▪ Market volatility makes now a good time to transfer business interests and other sizable assets to the beneficiaries of your estate, because values may be temporarily depressed and the gift and estate tax threshold is high. ▪ The November election may also make gift planning attractive, as many believe that if Democratic Candidate Biden is elected President, the gift and estate tax exemption will be reduced by half. Transferring assets through irrevocable trusts and other investment vehicles can optimize the estate tax impact of the transfer for your beneficiaries.

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Don't hesitate to contact your local CBIZ advisor at www.cbiz.com/newengland.

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