Tax Law Updates, Tips, and Tools

Timber Tax Presentation 2023

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Tax Law Updates
During last year’s session....

- Big tax law change ambitions, little hope for success going into 2022

- Build Back Better died early 2022

- Covid business and individual provisions coming to a close
So, what happened in 2022?

- Very little, mostly insignificant to most taxpayers
  - Inflation Reduction Act of 2022 (Passed 8/16/22)
    - Corporate Alternative Minimum tax for earners of greater than $1 Billion
    - Increased funding to IRS
    - Renewed Energy Credits
    - Healthcare provisions not related to tax
  - Secure Act 2.0 (Passed 12/29/22)
    - Numerous changes to retirement plan for individuals and businesses
    - Stricter rules on Conversation Easements
      - Possible limitation on amount of deduction
- Maybe we are getting back to normal
Tax Law Changes for 2022 & Forward

- Child Tax Credit is lower for 2022 than in 2021.
  - ARPA increased this to $3,600 (age 0-5) and $3,000 (age 6-17) for 2021
  - For 2022 this amount is $2,000 (age 16 or younger)
- IRA contributions remained the same at $6,000 per individual
- 401(k) contributions increased to $20,500
- Tax brackets, standard deduction and others items either had an incremental shift or no change at all
- Effective January 1, 2023 age to Required Minimum Distribution (RMD) is increased to 73. Must take by April 1 of the year after turning 73.
2022 & Forward - Continued

- Net Operating Loss Carryback
  - Farms only - 2 years back
  - All others must carry forward
- Meals deduction is back to 50% (100% in 2021/2022)
- No more charitable deduction in addition to standard deduction
  - Previously $300 ($600 MFJ) - 2021
Form K-2 and K-3

- New reporting requirement for Partnerships & S-Corporations
- Introduced for 2021 filings but had broader exceptions
- If entity has any foreign partners or foreign assets, have to file this
- If individual files Form 1116 with personal return, Partnership or S-Corporation has to file this
- Combined, these two forms are an additional 39 pages per partner or shareholder
Tax Cuts & Jobs Act - 2017

- Several provisions in this were only temporary and are set to expire after 2025
  - Section 199A (QBI) deduction
  - Bonus Depreciation - 100% for 2018 - 2022, 80% - 2023, 60% - 2024, 40% - 2025
  - Increased lifetime estate and gift tax exemption from $5.6 to $11.18 million per individual, indexed for inflation. For 2023, the exemption is 12.92 million per person.
    - If allowed to sunset after 2025, it will revert to around $7 million per person
Future Tax Law Changes?

- With split Congress, high probability of little change
- Election 2024
- Taxes will be effectively “raised” by letting Tax Cuts & Jobs Act expire after 2025
Proposed Tax Plans

- All of the following are proposals from campaigns of people who are now in office or chairing a committee in Congress. Not all of these will pass but are potentially on the table:
  - Income Tax Rates
    - Increase rates on individuals with the top bracket going from 37% to 39.6%
  - Capital Gains
    - Taxing long term capital gains at ordinary rates instead of 0%, 15% or 20%
  - Step-Up Basis
    - Eliminates step-up in basis for capital gains taxation
  - Payroll Taxes
    - Impose a 12.4% Social Security payroll tax on earners over $400,000
Proposed Tax Plans

- Corporate Income Tax Rate
  - Increase the corporate rate from 21% to 28% (some are proposing an increase to 35%)

- Corporate Minimum Tax Plan
  - A flat 15% tax on “book income” for corporations with large book to tax adjustments

- Double the tax rate on GILTI
  - This is the tax when you bring overseas profits back into the US

- Cap the overall benefit of itemized deductions to 28%
  - This will effect individuals with high charitable donations
Proposed Tax Plans

- Repeal Tax Cuts & Jobs Act
  - Phase out the Qualified Business Deduction
- Increase the generosity of the Child Tax Credit and Dependent Credit
- Expand the Earned Income Tax Credit
- Expand and restore renewable-energy-related tax credits and residential energy efficiency credits
- Re-establish the First-Time Homebuyers’ Tax Credit
- Reduce estate and gift tax thresholds to 2009 levels
  - $3.5 mil and 45% (currently at $11.7 mil and 40%)
Proposed Tax Plans

- Implement a 4% “income-based premium” on households making over $100,000 (This is part of the Medicare for All plan)
- Imposing a Financial Transaction tax on stock trades, bond trades and derivative transactions (0.1% - 0.2% per trade)
- Increased Social Security earnings limits - some pushing for a jump to $250k of wages
Timber Taxation - Strategizing
Employed vs. Self-employed

- **Employees**
  - Not much room to wiggle unless another business venture is present
  - No deduction of employee business expenses

- **Self-Employed**
  - Deduction of business related expenses
  - Trump tax laws currently still in place - quickly fading
    - Aggressive capital asset depreciation
    - Qualified Business Income deduction (20% haircut)
Investment vs. Business

- Passive investments, hobbies, and non-active participation
  - Produces little to no current tax benefit on dollars spent
  - Most dollars spent are either lost or held until the major capital assets are sold
- Active trade or business
  - Opens the door to numerous tax advantages
  - Typically considered a “Self-employed” activity
  - Cash inflows/outflows more closely line up with taxable income
Business like

- Paint the right picture
  - Make sure expenses such as interest expense, property taxes, utilities, etc. are being used appropriately and effectively where blurred lines exist
    - These types of expenses not used in conjunction with a business are just lost
    - Keep distance between recreation and operations
  - Does it look, smell and taste like a business?
    - Material participation - keep a log of time, work, and travel
    - Profit making intentions - stay active with foresters, organizations, and training/knowledge
    - Adequate record keeping - management plans, receipt records, etc.
Common tax deductible expenditures (including depreciable purchases)

- Property Taxes
- Insurance
- Legal & Professional
- Repairs & Maintenance
- Supplies
- Auto
- Equipment purchases
- Custom Hire
- Reforestation
- Dues & Subscriptions
- Continuing Education
- Chemicals
- Certain Property improvements
- Fuel & Oil
- Interest
- Contract Labor
- Equipment Rental
- Utilities
Business entities - why and which one?

- Key factors in determining what entity structure to use:
  - Legal liability
  - Ownership
  - Succession
  - Federal and state taxes
  - Complexity and cost benefit
  - Payroll and benefits
  - Growth and buying power
Business entities

- Often asked - how should I structure my business?
  - Options
    - Sole-proprietor business or farm (1040 Schedule C or F)
    - Partnership (1065)
    - S-Corporation (1120S)
    - C-Corporation (1120)
    - Trust (1041) *typically used for estate & succession planning first & foremost
  - What about an LLC?
    - Most commonly used entity structure - came into existence after federal tax law structure
    - An LLC can fall under any federal taxing structure given the right circumstances
Adequate Record Keeping - Income taxes

- How long?
  - IRS statute of limitations = 3 years
  - We recommend keeping records 4-5 years with overlap of filing periods
  - Might retain longer for special purposes - Capital Gains(Losses) & basis

- What records?
  - Bank statements, Credit Card statements, receipts, invoices, mileage logs
  - Images - recently aided in one of our timber farm audits

- Clear Separation
  - Not a bad idea to have separate bank accounts/credit cards for each business activity

- Not the same for other taxes, such as estate or sales.
Adequate Record Keeping - Cost Basis

- Cannot express the importance
  - Permanently store original cost records
    - Purchase settlement statements
      - Purchased or gifted
    - Estate tax returns/records for inherited properties
    - Distributions from other entities (k-1 statements / 1099-div liquidating)

- Inherited property
  - Property appraisals for highest values
    - Land & Timber
Avoid roller coaster tax rides
  - Averaging out income over time results in lower tax paid over time
    - Higher Income results in loss of certain deductions and credits (phase-outs)
    - Higher Income results in additional types of taxes
      - Additional investment & Medicare taxes
      - Alternative Minimum Taxes (AMT)
  - Utilize additional expenses/losses in years of additional income
    - Example - purchase of equipment in a year of a major cut/sale

Plan, Plan, Plan
  - October - December
  - IRS works off cash basis by default
Tips for smooth tax filings

- Submit all filings and payments electronically if possible
  - Not perfect, but seeing more errors and delays with regards to general postage
- Be sure to provide **ALL** important tax documents received
  - With more 1099’s being issued, taxpayers need to be sure that what the IRS has matches what is being reported
- File an extension just in case if you are filing and paying near the deadline
- Be patient
Handy Tools

- **Mile IQ**
  - [https://www.mileiq.com/](https://www.mileiq.com/)
  - A pencil free business mileage log
  - Automatic tracking
  - Year end reports
  - Multiple classifications
  - Can be used from your smartphone or computer

- **QuickBooks Online**
  - [https://quickbooks.intuit.com/online/](https://quickbooks.intuit.com/online/)
  - Real time, cloud based accounting
  - Anytime Accountant assistance
  - Automatic bank feeds and transaction memorization
  - App integration
  - Test Drive the system - [https://qbo.intuit.com/redir/testdrive](https://qbo.intuit.com/redir/testdrive)
Handy Tools

- **Local Appraisal District / Tax Assessor**
  - Depending on service provider, they may provide the following information:
    - Owner Info
    - Deed transfer Dates
    - Appraised values breakdown
    - Map Tools and property lines
    - Appraisal Example - [https://polkcad.org/home](https://polkcad.org/home)
    - Assessor Example - [http://polktax.com/](http://polktax.com/)

- **National Timber Tax**
  - [https://www.timbertax.org](https://www.timbertax.org)
  - A wealth of information regarding timber tax for all levels of participants
Handy Tools

- **Gusto Payroll**
  - [https://gusto.com/](https://gusto.com/)
  - Simplified payroll for small employers (I recommend 1-5 employees)
  - Can be as easy as hands free
  - Paperless system

- **Texas Comptroller**
  - [https://comptroller.texas.gov/](https://comptroller.texas.gov/)
  - Research and instructions for basically all Texas taxes
  - Entity lookup - [https://comptroller.texas.gov/](https://comptroller.texas.gov/)
  - Online filing - [https://mycpa.cpa.state.tx.us/securitymp1portal/displayLoginUser.do](https://mycpa.cpa.state.tx.us/securitymp1portal/displayLoginUser.do)
Handy Tools

- **Office Lens mobile app**
  - Enhances, trims and straightens document images taken by phone
  - Stores them and enables them to be transferred to other devices in readable workable formats
  - Works with most documents, including business cards

- **Rocket Book**
  - [https://getrocketbook.com/](https://getrocketbook.com/)
  - Notebook style devices that convert written text into electronic readable and transferrable data
Handy Tools

- ShareFile
  - https://www.sharefile.com/
  - Secure document exchange
  - Temporary data cloud based storage
  - Able to send multiple and large files
  - Can be paired with e-mail

- Local CPA’s website
  - May provide an available portal for secure document exchange and retention
  - News on tax laws and changes that affect the local area (example - Covid pandemic tax laws)
  - Links and resources
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Questions?