Tax Law Updates, Tips, and Tools

Timber Tax Presentation 2021
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Recent Tax Bills

Coronavirus Aid, Relief, and Economic Security Act (CARES)
- Signed into law March 27, 2020
- First Covid response legislation
- Geared at help fund shut downs and quarantines
- Primarily focused on small business & employees

The Consolidated Appropriations Act (CAA)
- Signed into law Dec. 27, 2020
- Included two separate tax provisions we are concerned with:
  - The Covid-Related Tax Relief Act of 2020
  - The Taxpayer Certainty and Disaster Tax Relief Act of 2020
- Further assistance and funding for Covid Relief
Individual taxpayer provisions of new laws

- 2 Recovery rebate paid out (stimulus payments) - reconciled on 1040
  - Interesting fact - any individuals who received more than they should have, are NOT required to pay it back
- Special $300 charitable deduction for those who use standard deduction
- Charitable itemized deductions allowed up to 100% of income (up from 60%)
- Covid Sick/Family Leave pay credit for self-employed
- Required minimum distributions of certain retirement plans waived for 2020
- Possible 10% penalty exemption for certain retirement plan distributions due to Covid - for 2020
Individual taxpayer provisions - continued..

- Election to use 2019 earned income for consideration of 2020 Earned Income Credit and refundable Child Tax Credit

- Medical deductions opened up to include previously excluded items and AGI limitation permanently enacted as 7.5% rather than 10%
Business provisions of new tax laws

  - 5 year carryback for most businesses
  - Farms can elect 2 year carryback
  - Prior Law - NOL to be carried forward only

- Covid Payroll Relief
  - PPP Loan - 2.5x payroll - **Window currently open for 2nd Round**
    - Possible 100% forgiveness
    - Forgiven PPP loan is non-taxable yet expenses paid by proceeds are deductible
  - Employee Retention Credit
    - 2020 - 50% drop in revenue - Maximum credit = 50% of $10k wages per employee annually
    - 2021 - 20% drop in revenue - Maximum credit = 70% of $10k wages per employee quarterly
    - Not allowed for wages covered by PPP
Business provisions - continued...

- Sick/Family Medical leave pay
  - Up to 80 hours pay for individuals on leave due to Covid related matters
  - Employers reimbursed through payroll tax filings
  - 2020 - mandatory / 1st Quarter 2021 - voluntary

- Certain meals allowed 100% deduction if purchased from a restaurant
  - Includes take-out as well as dine-in
  - Limitations on entertainment still in effect - 100% non-deductible

- Numerous credits extended including various green/energy efficient credits
New Basis reporting requirements

- For Partnerships and S-Corporations
  - Tax basis capital is now required on partner k-1 (partnership)
  - # of shares and loans from shareholders required on shareholder k-1 (S-Corp)
- What is the IRS trying to achieve?
  - Generate more tax dollars through accurate reporting
    - The IRS is aware of inaccurate taxable sales of ownership interests and improper usage of excess losses - this forces partners & shareholders to more accurately tract basis
- How does this apply to timber?
  - Purchases of land & timber builds tax basis
    - Partner contributes land & timber to partnership for buy-in
    - Shareholder loans funds to S-Corp to by land & timber
Employed vs. Self-employed

- Employees
  - Not much room to wiggle unless another business venture is present

- Self-Employed
  - Numerous benefits due to the pandemic to take advantage off
    - PPP, NOL Carrybacks, Sick pay
  - Trump tax laws currently still in place
    - 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.
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
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
Estate & Gift Taxation

- Passing it on - mentioned last year, but now more than ever
  - The Estate and Gifting exclusion jumped from $5 million to $11 million with the Trump tax laws - but here’s the real kicker:
    - If you gift $11 million now (tax free) - you will not be taxed if the exclusion ever falls again (such as when the current law expires after 2025)
    - The downside to this, historically, estate exemptions typically do not fall, but note this was the largest increase to date and change is in the air....
Handy Tools

- Mile IQ
  - 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/
  - 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
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)

- 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/](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
Tax Planning Strategies

Timber Tax Presentation 2020
Presented by Trent G. Cook, CPA
Qualified Opportunity Zone and Funds
Qualified Opportunity Zones and Funds

- Can defer capital gains into Qualified Opportunity Funds
- The Fund must invest into a designated Qualified Opportunity Zone
- Receive up to 10% reduction of capital gain if held for 5 years
- If you hold the new asset in the Fund for 10 years, you can sell it tax free

https://www.cims.cdfifund.gov/preparation/?config=config_nmtc.xml
Economic Stimulus Payments

- These payments are not taxable to you
- 1st stimulus payment - $1,200 per taxpayer, $500 per qualifying child
- 2nd stimulus payment - $600 per taxpayer, $600 per qualifying child
- Payments started being phased out by 5% for the amounts over: $75,000 for Single and $150,000 for MFJ taxpayers
- Qualifying child is all dependent children under the age of 17. Thus omitting adult dependents, i.e. college kids
- Must reconcile on your 2020 return the amount of these payments you received
Economic Stimulus Payments

- Didn’t receive your full payment?
  - You can receive a credit on your 2020 tax return if you did not receive the full amount you were entitled to.

- Received more than you were supposed to?
  - Do not have to pay back if received too much.

- New Round of payments coming soon
  - Will be passed via Budget Resolution so only needs a majority vote.
  - House plans to pass by end of February, Senate by mid-March.
  - Proposed $1,400 per taxpayer and qualifying child.
  - Phase-out will either be the same or lower.
Future Tax Law Changes?
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- Almost a guarantee we will have a new tax bill by the end of 2021
- The uncertainty at this point as to what this bill will look like severely complicates planning
- Will this be done in time to be retroactively applied to 2021 taxes?
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
- Reestablish 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)
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Questions?