

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

- ▶ NOL Carryback allowed for 2018, 2019 and 2020.
 - ▶ 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 track 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 buy 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>
 - ▶ Assessor Example - <http://polk-tax.com/>

▶ National Timber Tax

- ▶ <https://www.timbertax.org>
- ▶ A wealth of information regarding timber tax for all levels of participants

Handy Tools

▶ Gusto Payroll

- ▶ <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/>
- ▶ Research and instructions for basically all Texas taxes
- ▶ Entity lookup - <https://comptroller.texas.gov/>
- ▶ Online filing - <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/>
- ▶ 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

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 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?

Future Tax Law Changes?

- ▶ 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?