MANAGEMENT & *TAX CONCEPTS*

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CARES ACT INCREASES CHARITABLE DONATION DEDUCTION OPPORTUNITIES

MORE IN THIS ISSUE...

Businesses can now enjoy faster depreciation of real estate qualified improvement property

How the SECURE Act could affect retirement planning

Business strategies
Stay steady in a troubled economy

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CARES Act increases charitable donation deduction opportunities

The novel coronavirus (COVID-19) crisis has taken its toll on everyone, and many businesses have been injured economically. One way the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) is trying to help is by increasing available tax deductions for individuals and businesses contributing to charity in 2020. This in turn may boost financial support for the not-for-profit groups that desperately need funds.

DONATION DEDUCTION BASICS FOR INDIVIDUALS

Individual taxpayers can claim a federal income tax deduction for contributions to qualified charities.

The catch is that, to do so, they generally must itemize deductions.

Due to changes under 2017's Tax Cuts and Jobs Act (TCJA), far fewer taxpayers benefit from itemizing. Why? First, the TCJA nearly doubled the standard deduction. The inflation-adjusted amounts for 2020 are $12,400 for singles and $24,800 for married couples filing jointly. Second, the TCJA reduced or eliminated several itemized deductions. As a result, many more taxpayers' total itemized deductions aren't exceeding their standard deduction, so they're better off claiming the standard deduction — thereby eliminating the tax benefit from their charitable donations.

On the flip side, the TCJA has encouraged itemizers to donate more by increasing the limit on charitable deductions for cash contributions from 50% to 60% of adjusted gross income (AGI). If an individual's contributions for the year exceeds 60% of AGI, then the excess is carried forward and treated as a deductible charitable contribution for up to five succeeding tax years.

DONATION DEDUCTION BASICS FOR BUSINESSES

Businesses also may be eligible for a federal income tax deduction for charitable contributions. A corporation's deduction for cash contributions generally can't exceed 10% of its modified taxable income. If a corporation's contributions for the year exceed the 10% limit, the excess is carried forward

and treated as a deductible charitable contribution for up to five succeeding years.

A donation of food inventory to a charity that will use it for the care of the ill, the needy or infants is deductible in an amount up to the food inventory's basis, *plus* half the gain that would be realized on the sale of the food (not to exceed twice the basis).

For a C corporation, the deduction for a food inventory donation can't exceed 15% of the corporation's income. For other taxpayers, the deduction can't exceed 15% of aggregate net income of the taxpayer for that tax year from all trades or businesses from which those contributions were made, computed without regard to the taxpayer's charitable deductions for the year.

CARES ACT CHANGES

The CARES Act makes four significant liberalizations to the charitable deduction rules:

1. Individuals can claim an above-the-line deduction of up to $300 for 2020 cash contributions made to certain public charities. This rule effectively allows a limited charitable deduction to taxpayers who claim the standard deduction.

2. Individuals can claim a charitable deduction for 2020 cash contributions made to certain public charities equal to as much as 100% of AGI. No connection between the contributions and COVID-19 activities is required. This provision benefits individuals who claim itemized deductions.

3. Corporations can claim a charitable deduction for qualifying 2020 cash contributions equal to as much as 25% of modified taxable income. No connection between the contributions and COVID-19 activities is required.

4. Businesses can claim a charitable deduction for 2020 contributions of food inventory of up to 25% of applicable income. For C corporations, this is 25% of taxable income. For other taxpayers, it's 25% of the net aggregate income from all businesses from which the contributions were made.

For charitable contributions made after December 31, 2020, the prior (pre-CARES Act) rules will apply.

How the CARES Act affects retirement plan distributions

With a few exceptions, retirement plan distributions made before age 59½ are subject to a 10% penalty, in addition to any income tax that ordinarily would be due on a withdrawal. The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) provides an important new exception for 2020: It waives the 10% penalty — along with providing additional tax advantages that taxpayers age 59½ and older can also benefit from — on COVID-19-related distributions. These generally are 2020 withdrawals made by someone who has been (or whose family has been) infected with COVID-19 or who has been economically harmed by the virus.

Distributions are limited to $100,000 in aggregate and may be re-contributed to the retirement plan over the three-year period starting the day after the withdrawal. Income tax payments on the distribution (if not recontributed) can be spread out over three years. Many additional rules apply, so contact your tax advisor for details.

Retirement plan owners who don't need funds from their accounts this year can also benefit from the CARES Act. It waives retirement plan required minimum distributions (RMDs) for 2020. RMDs generally apply to taxpayers age 70½ or older (or 72 or older for those who didn't turn 70½ by Dec. 31, 2019) and to taxpayers of any age who've inherited retirement plans (other than from spouses).

SEEK ADVICE

Your tax advisor can help you form a strategy for charitable giving this year. Get in touch — and do some good while getting a tax benefit, too. •

Businesses can now enjoy faster depreciation of real estate qualified improvement property

A technical correction in the Coronavirus Aid, Relief, and Economic Security (CARES) Act, signed into law in late March, retroactively allows real property owners to depreciate qualified improvement property (QIP) faster than before. The change could lower your tax bill for 2018 and beyond.

DRAFTING ERROR

Under 2017's Tax Cuts and Jobs Act (TCJA), QIP is defined as an improvement to an interior portion of a nonresidential building that's placed in service after the building was first placed in service, which is a broader definition than before the TCJA. (QIP *doesn't*, however, include expenditures attributable to any elevator or escalator, the enlargement of the building, or the building's internal structural framework.)

When drafting the TCJA, members of Congress made it clear that they intended QIP placed in service in 2018 and beyond to be eligible for 15-year straight-line depreciation. This, in turn, would have allowed QIP to be eligible for the TCJA's first-year bonus depreciation break (100% for property placed in service in 2018 through 2022, gradually reduced from 2023 through 2026).

However, due to a drafting error, QIP wasn't included in the statutory language's definition of 15-year property, which meant it wasn't eligible for the intended first-year bonus depreciation break.

Instead, QIP defaulted to being treated as non-residential real property depreciated over 39 years using the straight-line method. The only way to fix the mistake was to make a technical correction.

Due to a drafting error, QIP wasn't eligible for the intended first-year bonus depreciation break.

CORRECTED AT LAST

There'd been talk of a technical correction ever since the TCJA was signed into law, but it didn't come to fruition until the CARES Act made the correction. As a result, QIP is now included in the Internal Revenue Code's definition of 15-year property. In turn, that classification makes QIP eligible for first-year bonus depreciation.

The correction is retroactive for QIP placed in service in 2018 and 2019. If you placed any QIP in service in those years and have filed returns for them, amending those returns could provide an immediate tax refund.

But don't assume that claiming 100% bonus depreciation is your best option. In some situations, spreading out your depreciation deductions over a 15-year period may provide more benefit. For example, 15-year depreciation might be better if you plan on selling the property relatively soon, if you anticipate being in a higher tax bracket in the future or if you're eligible for the qualified business income (QBI) deduction generally available to pass-through entities.

WHAT NEXT?

As you can see, many considerations are involved when it comes to depreciation decisions for QIP. Contact your tax advisor to determine your best course of action. •

How the SECURE Act could affect retirement planning

Late last year, landmark legislation was signed into law that will impact retirement planning for millions of Americans. The Setting Every Community Up for Retirement Enhancement (SECURE) Act will make it easier to save money for a financially secure retirement.

BENEFICIAL PROVISIONS

Here are some of the SECURE Act's most consequential provisions:

Many part-time employees will become eligible for plan participation. Starting in 2021, part-time employees who worked at least 1,000 hours during the previous year must be allowed to participate in a 401(k) plan at work if one is offered. The same goes for part-timers who have worked at least 500 hours per year for three consecutive years.

The age limit for contributing money to traditional IRAs has been eliminated. Before 2020, the last year for which you were eligible to contribute to a traditional IRA was the year prior to reaching age 70½. The SECURE Act removes this ceiling — you can now make traditional IRA contributions indefinitely if you're otherwise eligible.

This provision could benefit the growing number of people willing to work into their 70s and even 80s. By continuing to contribute money to their traditional IRAs, these individuals could take advantage of the contribution's tax benefit.

The age when required minimum distributions (RMDs) must begin has been raised. Federal law requires owners of traditional IRAs and, generally, owners of employer-sponsored defined contribution plans such as 401(k)s to start making withdrawals when they reach a certain age. Previously, these RMDs had to begin after age 70½. The SECURE Act raises the age to 72 for taxpayers who didn't turn age 70½ before January 1, 2020.

Affected taxpayers who don't need to make withdrawals to cover living expenses can keep more money in their retirement plans a little longer. This will allow the money to continue growing tax-deferred for longer, *and* let you delay the payment of income taxes that's due upon withdrawal of traditional retirement plan funds.

Employers offering annuities as a plan investment option will enjoy greater protection. Many retirees like the income certainty offered by annuities, but some employers have been hesitant to offer them due to liability concerns. The SECURE Act provides more liability protection to plan sponsors that choose to offer annuity contracts. This could result in more employers offering these popular options in their plan's investment menu.

It'll become easier for employers to create multiple employer plans (MEPs). With these retirement plans, small businesses join together to offer a plan, which lowers administrative costs. The SECURE Act relaxes rules that have made forming MEPs difficult for many small businesses.

Starting next year, these businesses will no longer be required to have a common connection or similarity as they have in the past. This provision could increase retirement plan access for employees who work for small businesses that have been unable to offer a plan.

STRETCH IRA ELIMINATED

The SECURE Act contains at least one provision that isn't taxpayer beneficial. The legislation eliminates a popular estate planning technique known as the "stretch IRA."

With this technique, beneficiaries extend distributions from inherited IRAs over their lifetime. Doing so keeps RMDs to a minimum, allowing the account to continue to grow tax-deferred and reducing the current income tax burden by spreading out the tax liability over many years.

Under the SECURE Act, in most instances, funds from inherited IRAs must be fully withdrawn within 10 years of the original account owner's death. This provision affects account owners who die after December 31, 2019. Certain beneficiaries, such as surviving spouses, minor children, and someone who is disabled or chronically ill, are exempt from the 10-year rule. Note that minors are exempt only if they're the child of the account owner, and only until reaching the age of majority, at which time the 10-year period will begin.

SEEK GUIDANCE

These are just some of the SECURE Act's many provisions. Talk with your financial and tax advisors about how the legislation could affect your retirement plans. •

Business strategies

Stay steady in a troubled economy

The novel coronavirus (COVID-19) pandemic has done severe economic damage to many U.S. businesses, and it will likely take considerable time to recover. Here are some tried-and-true suggestions to help keep your business on the right track.

CUTTING BACK STRATEGICALLY

While it may seem obvious that in a faltering economy you need to curb spending, the key is scaling back in the right places. Enlist employees to help cut any expenses that don't foster your business's long-term success. Communicate regularly with staff about the need to curb spending and recognize employees for their cost-control measures.

Now isn't the time to stop investing in new technologies, especially if those activities are the lifeblood of your business. When your markets may be shrinking, you need to do more, not less, to stay competitive.

PRIORITIZING EXPENDITURES

Create a list of all expenses over the course of a year and separate them into three categories: "must-have," "nice-to-have" and "don't need." Let your department managers

provide input on which expenses should fall under each category.

Another technique: Have a check-signing "social" in which department managers are brought together (virtually if necessary) and quizzed about necessity while the owner or general manager signs vendor checks. This puts managers on notice that their spending decisions are being scrutinized, encouraging them to use more discretion when making purchases. They also might appreciate the team effort.

TEAMING UP WITH SOLID PARTNERS

In tough economic times, it's important to work with suppliers, subcontractors and other business partners that are financially strong. Keep an eye on their stability. Avoid prepaying contracts, especially if a partner's solvency is in question.

Maintaining good relationships with your suppliers is vital, so keep the conversation open and flowing with customers and vendors alike. If you're up-front about your situation, a good supplier may even help you through these tough times by extending credit or setting up a payment plan.

> *Create a list of all expenses over the course of a year and separate them into three categories: "must-have," "nice-to-have" and "don't need."*

COLLECTING RECEIVABLES

Many of your customers may have difficulty paying their invoices after their businesses have been closed or partially closed due to COVID-19. One way to help move things along is to reward the "early birds" — or at least those who pay on

time. Consider offering these customers a small percentage off their bills or value-added perks.

To encourage customers who're running behind to pay sooner rather than later, consider waiving late charges if they quickly resolve outstanding balances.

DETERRING FRAUD

Study after study shows that employees are more likely to commit fraud when they're taking an economic hit. Asset misappropriation and theft are two of the most prevalent types of fraud.

Reduce these threats by implementing a solid system of internal accounting controls, such as segregating duties and requiring a second signature on checks over a certain amount. Also, if you're hiring, follow sound practices, including background checks on candidates.

REACH OUT

Don't forget that federal and state governments are there to help. Taking advantage of tax incentives, deductions, credits and low-interest or forgivable loans is one of the quickest ways to positively impact your company's bottom line. Check with your tax advisor to ensure you don't miss any valuable money-saving opportunities. •

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TAX PLANNING AND PREPARATION

Taxes are a part of life, and at Martin Hood we can help you find ways to minimize the impact that taxes have on you and your family. We work with our clients year-round to develop and implement effective tax planning strategies to reduce year-end tax bills. Our state and international tax team performs extensive research in areas that reach beyond our local community. In addition to income tax preparation, we can prepare gift and estate tax returns, sales and payroll tax returns, and informational tax returns for not-for-profit organizations. We also assist clients with IRS audits and notices from tax authorities.

BUSINESS ADVISORY SERVICES

We provide accounting assistance and a comprehensive approach to helping with whatever keeps you up at night. We can help set up an accounting system to help you cover your accounting needs on your own in a more efficient manner, fill a temporary need for accounting staff, or fill a more permanent role in basic accounting or acting as an outsourced controller — all while keeping the bigger picture in mind and pulling in our tax, assurance, and planning expertise to serve as a well-rounded business advisor in nearly all tax, accounting, and financial matters.

ESTATE AND RETIREMENT PLANNING

The Estate and Retirement Planning team at Martin Hood helps our clients recognize the importance of proper planning for business succession, education, retirement, and wealth accumulation. This process is presented in an open and candid manner, placing family and retirement needs at the forefront of every plan. Our team strives to help you build a plan that minimizes the estate tax burden and helps you achieve your financial goals.

Tax Specialty Areas

- State and Local Taxation
- International Tax Issues
- Trusts and Estates
- Partnerships
- C corporations
- S corporations
- Individual tax compliance
- Tax planning
- Construction and Manufacturing
- Non-profits