



TAX LAW CHANGES DURING THE PANDEMIC

QUALIFIED IMPROVEMENT PROPERTY, 100% BONUS DEPRECIATION, NOL CARRYBACKS,
& OTHER FAVORABLE CHANGES

PRESENTERS



TRENT BAECKL, CPA

Perkins & Co
Shareholder

tbaeckl@perkinsaccounting.com



SAM WOODELL, CPA

Perkins & Co
Tax Senior

swoodell@perkinsaccounting.com

OVERVIEW

QUALIFIED IMPROVEMENT
PROPERTY UPDATES
DUE TO THE CARES ACT

IMPACTS ON BUSINESS LOSSES &
INTEREST EXPENSE LIMITATIONS
DUE TO THE CARES ACT

QUALIFIED IMPROVEMENT PROPERTY UPDATES



WHAT IS QUALIFIED IMPROVEMENT PROPERTY (QIP)?

QIP Requirements

- Nonresidential real property
- Improvements made to the interior portion of an existing building and common areas
 - Examples include: Installation or replacement of nonstructural walls and partitions, lobby renovations, ceilings, interior doors, fire protection, electrical, HVAC, and plumbing

Exclusions

- Improvements attributable to internal structural framework
- Improvements made to the exterior portion of the building
- Enlargements to the building
- Elevators or escalators



DEPRECIATION METHOD (THE RETAIL GLITCH)

- QIP was originally intended to be 15-year property, beginning in 2018
 - Eligible for bonus depreciation (100% 2018 – 2022)
- Due to a drafting error in the TCJA, QIP was not explicitly included in the definition of 15-year property
- 39-year property, NO bonus depreciation

DEPRECIATION METHOD (THE FIX)

- The CARES Act passed in March 2020 provided the technical correction to fix the drafting error
- QIP properly included in the definition of 15-year property in §168(e)(3)(E) and §168(k)2(A)
 - Eligible for bonus depreciation (100% 2018 – 2022)
- Fix made retroactively to January 1, 2018
- Several ways to take immediate advantage of the CARES Act fix (Rev. Procs. 2020-22 and 2020-25)



SUMMARY ON HOW TO CORRECT QIP TREATMENT

2018 Return Filed; 2019 Return Not Yet Filed

- QIP Placed in Service 2018
 - Option 1: Amend 2018 return (or file AAR)
 - Option 2: File 3115 with 2019 return
- QIP Placed in Service 2019
 - Treat correctly as 15-year, bonus eligible property on 2019 return

SUMMARY ON HOW TO CORRECT QIP TREATMENT

2018 Return Filed; 2019 Return Already Filed but with Extension

- QIP Placed in Service 2018
 - Option 1: Amend 2018 return (or file AAR)
 - Option 2: File 3115 with superseding 2019 return
 - Option 3: File 3115 with 2020 return
- QIP Placed in service 2019
 - Option 1: File superseding 2019 return to treat QIP as 15-year, bonus eligible
 - Option 2: File 3115 with 2020 return



SUMMARY ON HOW TO CORRECT QIP TREATMENT

2018 Return Filed; 2019 Return Timely Filed on 3/15
with No Extension

- QIP Placed in Service 2018
 - Option 1: Amend 2018 return (or file AAR)
 - Option 2: File 3115 with 2019 amended return under late relief provision within 6-month period from original due date of return
 - Option 3: File 3115 with 2020 return
- QIP Placed in Service 2019
 - Option 1: Amended 2019 return (or file AAR)
 - Option 2: File 3115 with 2020 return

All these scenarios are contingent on NO Real Property Trade or Business Election being made (due to §163(j) interest expense limitation impacts)

- Additional analysis should be done to determine the interplay between accelerated depreciation and other provisions

IMPACT ON BUSINESS LOSSES & INTEREST EXPENSE LIMITATIONS





CARES ACT – BUSINESS LOSSES

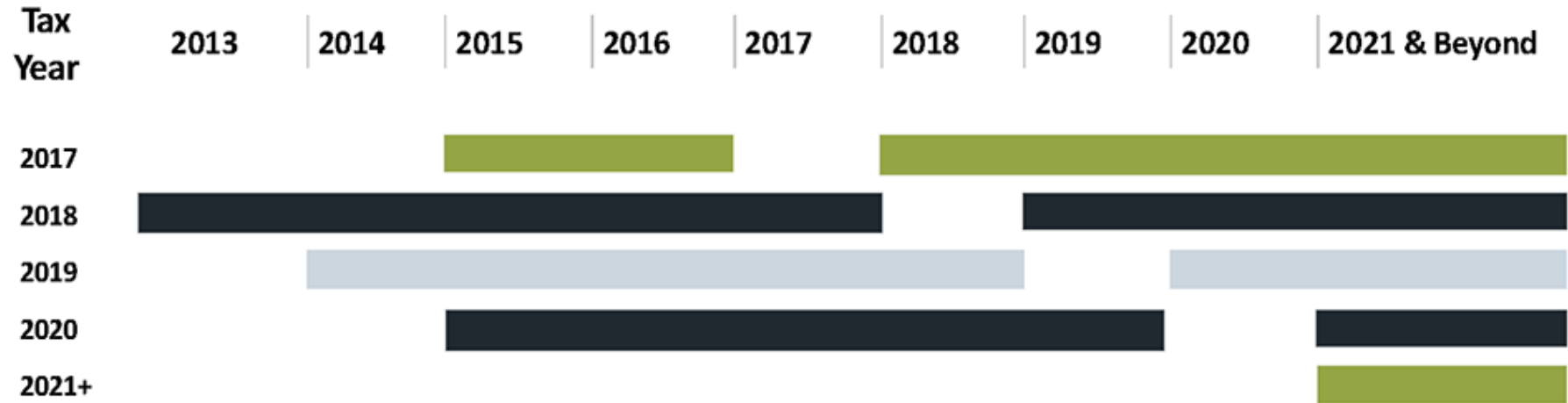
Net Operating Losses

- 80% taxable income limitation removed
- NOLs generated in 2018-2020 may be carried back 5 years
- Election available to forgo carryback

Excess Business Losses

- \$500k limitation (\$250k single) on losses removed for tax years 2018-2020
- Mandatory for 2018 – amended returns may be needed

NET OPERATING LOSSES



	Carryback	Carryforward
Pre-2018 NOLs	2 Years	20 Years
2018-2020 NOLs	5 Years	Indefinite
Post-2020 NOLs	No Carryback	Indefinite

CARES ACT – INTEREST EXPENSE LIMITATION

- Changes for 2019 tax year
 - Limitation increased to 50% of adjusted taxable income for individuals and corporations
- Changes for 2020 tax year
 - Limitation increased to 50% of adjusted taxable income for all taxpayers
 - May elect to use 2019 adjusted taxable income for limitation calculation
 - Partners may deduct 50% of their 2019 excess business interest in 2020
 - Remaining 50% subject to limitation
- One-time relief available to withdraw a previously filed election to exempt real estate businesses



CARES ACT – INTEREST EXPENSE LIMITATION

PARTNERSHIP EXAMPLE

2019	Pre-CARES	CARES	Difference
Adjusted taxable income	\$100,000	\$100,000	\$0
Interest expense	\$60,000	\$60,000	\$0
Deductible interest	\$30,000	\$30,000	\$0
2019 Excess business interest	(\$30,000)	(\$30,000)	\$0

2020	Pre-CARES	CARES	Difference
Adjusted taxable income	\$40,000	\$40,000	\$0
Interest expense	\$60,000	\$60,000	\$0
Deductible interest	\$12,000	\$50,000	(\$38,000)
2020 Excess business interest	(\$48,000)	(\$10,000)	\$38,000
2019 Excess business int ded	\$0	(\$15,000)	(\$15,000)

THANK YOU

