

# Real Estate Connection presents:

**Tax Update & 1031 Exchanges...  
Worth Another Look?**





**PERKINS & CO**

*Let's get there*

# Tax Update – Uncovering Hidden Treasures

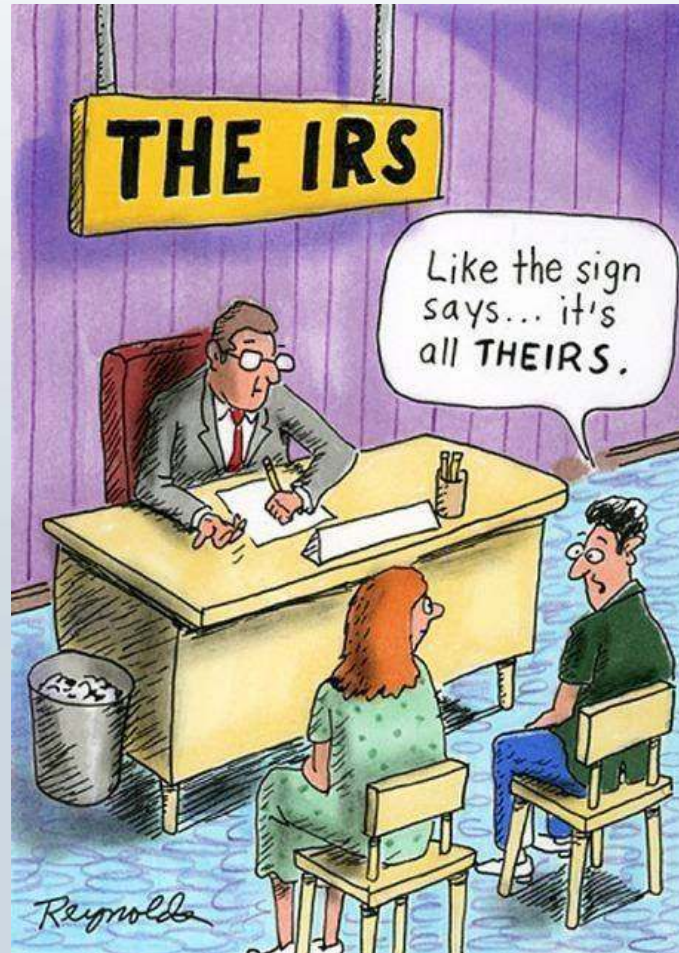
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# 2014 Tax Update



# 2014 Tax Overview



## › Tax Rates

- 39.6% ordinary over \$450k
- 20% capital gains

## › Net Investment Income Tax

- 3.8% on excess investment income over \$250k (MFJ)
- Interest
- Dividends
- Capital gains
- Passive/rental income
  - Rental income excluded if materially participating RE professional
- 0.9% tax on wages over \$250k

# 2014 Tax Overview



- › 50+ provisions extended thru 12/31/14 including:
  - 50% bonus depreciation
  - 15 year life for Qualified Leasehold Improvements
  - \$500k Sec. 179 expense limit
  - 179D energy efficiency deduction
  - Energy Efficiency Home Builders credit
  - Built-in Gains tax for S Corps – 5 years
  - R&D credit
  - Tax-free IRA distributions up to \$100k age 70½

# 2014 Tax Overview



- › Estate & Gift Tax
  - Lifetime exemption - \$5.34M
  - \$14k annual exclusion
  
- › Portland/Multnomah County
  - Owner's comp deduction - \$100k city/\$92k county
  
- › Market-Based Sourcing for State Apportionment
  - AL, AZ, CA, DC, GA, IL, IA, ME, MD, MA, MI, MN, NE, NY, OH, OK, PA, UT, WA, & WI

# 2015 Tax Planning



## › Expired Federal Provisions

- ~~50% bonus depreciation~~
- ~~15 year life for Qualified Leasehold Improvements~~
- ~~\$500k Sec. 179 expense limit~~
- ~~179D energy efficiency deduction~~
- ~~Energy Efficiency Home Builders credit~~
- ~~Built-in Gains tax for S Corps — 5 years~~
- ~~R&D credit~~
- ~~Tax-free IRA distributions up to \$100k age 70½~~

## › Health Care Reform

- New reporting requirements for businesses w/ 50 full-time employees

# 2015 Tax Planning



- › Estate & Gift Tax
  - Lifetime exemption - \$5.43M
  - \$14k annual exclusion
  
- › Oregon reduced rates for pass-thru entities
  - Owner is active in the business
  - 7-9% graduated rate up to \$5M of taxable income
  - Full-time employee (non-owner) requirement



# Tangible Property Regulations



# Tangible Property Regulations



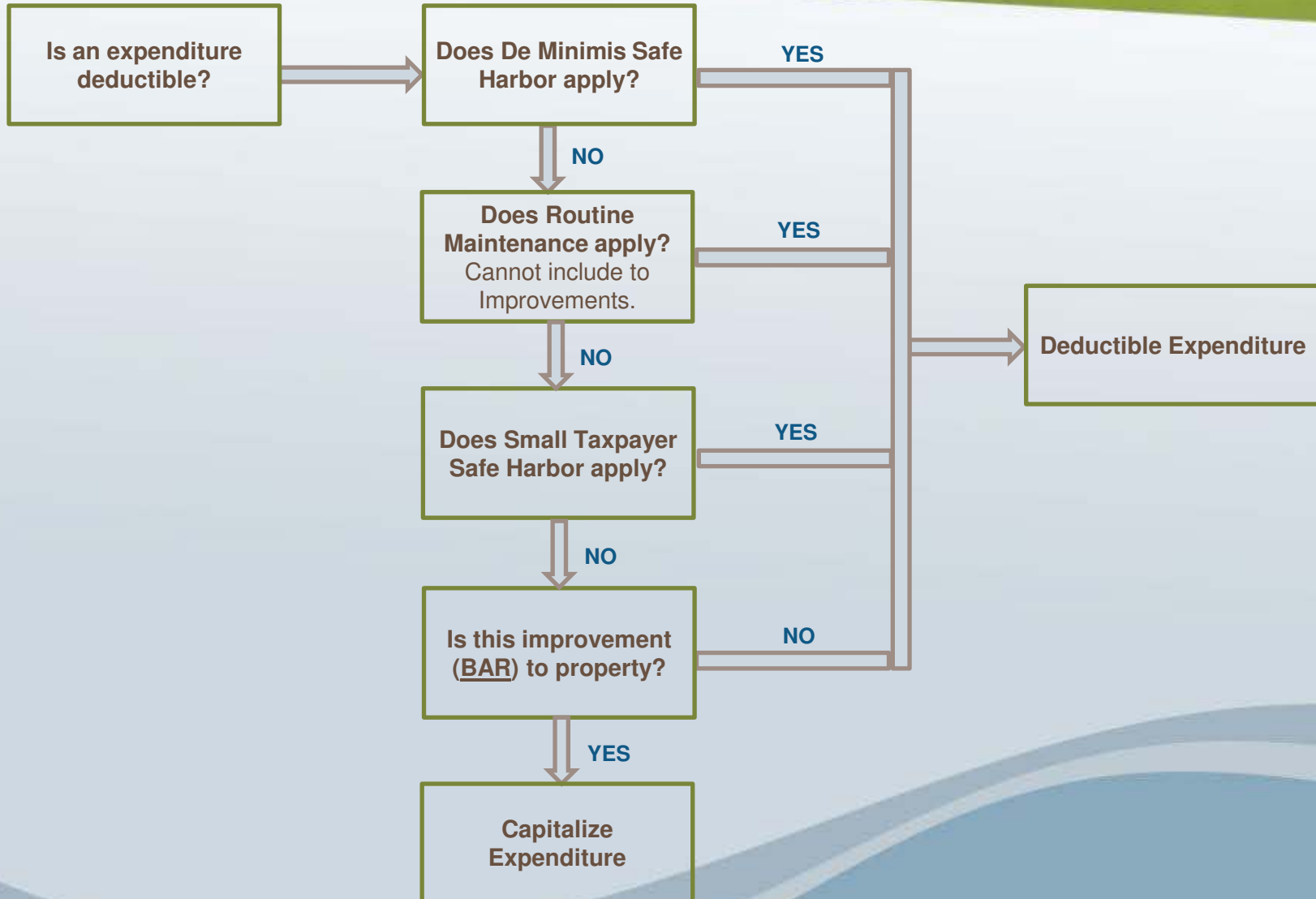
- › Effective for all taxpayers with years beginning on or after January 1, 2014
- › All taxpayers that own or rent tangible property must comply with these regulations as of the effective date
  - As a result, the IRS is expecting most business taxpayers to file a change in accounting method (Form 3115) to comply

# Tangible Property Regulations



- › Unit of Property
  - New (de minimis safe harbor)
  - Existing (9 building systems)
  
- › Capital Expenditures vs. Repairs & Maintenance
  - Betterments
  - Aadaptations
  - Restorations

# Tangible Property Regulations





# UOP – Building Systems



## Building Unit(s) of Property and Common Components

Building Structure (Shell)	HVAC	Plumbing	Gas Distribution	Electrical	Elevators	Escalators	Fire Protection	Security Systems
<ul style="list-style-type: none"><li>• Roof</li><li>• Walls</li><li>• Floors</li><li>• Ceilings</li><li>• Foundation</li></ul>	<ul style="list-style-type: none"><li>• Motors</li><li>• Compressors</li><li>• Boilers</li><li>• Furnace</li><li>• Chillers</li><li>• Pipes</li><li>• Ducts</li><li>• Radiators</li></ul>	<ul style="list-style-type: none"><li>• Pipes</li><li>• Drains</li><li>• Valves</li><li>• Sinks</li><li>• Bathtubs</li><li>• Toilets</li><li>• Water &amp; Sewer Collection Equipment</li><li>• Water Utility Equipment</li></ul>	<ul style="list-style-type: none"><li>• Pipes</li><li>• Gas Utility Equipment</li></ul>	<ul style="list-style-type: none"><li>• Wiring Outlets</li><li>• Junctions</li><li>• Lighting Fixtures &amp; Connector</li><li>• Electrical Utility Equipment</li></ul>	<ul style="list-style-type: none"><li>• Elevator Boxes</li><li>• Control Equipment</li><li>• Cables &amp; Movement Equipment</li></ul>	<ul style="list-style-type: none"><li>• Rails</li><li>• Steps</li><li>• Supporting Equipment</li><li>• Controls</li></ul>	<ul style="list-style-type: none"><li>• Sensing &amp; Detection Devices</li><li>• Computer Controls</li><li>• Sprinkler Heads &amp; Mains</li><li>• Piping &amp; Plumbing</li><li>• Alarms</li><li>• Control Panels</li><li>• Signage</li></ul>	<ul style="list-style-type: none"><li>• Window &amp; Door Locks</li><li>• Security Cameras</li><li>• Recorders</li><li>• Monitors</li><li>• Motion Detectors</li><li>• Security Lighting</li><li>• Alarms</li><li>• Entry Access</li></ul>

# Improvement Standards



- › **Betterments** – capitalize if:
  - Pre-existing material condition or defect is corrected
  - Material addition or expansion
  - Reasonably expected to materially increase:
    - Productivity
    - Efficiency
    - Strength
    - Quality
    - Output
- › Opportunity – **TI's and building refresh**

# Improvement Standards



- › **A**daptations – capitalize if:
  - New or different use from intention when originally placed in service

# Improvement Standards



- › **Restorations** – capitalize if:
  - Returns UOP to ordinary efficient operating condition if deteriorated to state of disrepair and no longer can function for intended use
  - Returns UOP to “like-new” condition at the end of its class life
  - Replaces major component or substantial structural part of UOP
  - Replaces UOP where loss recognized on replaced component
  
- › Opportunity – **partial asset dispositions**



# Partial Asset Dispositions



- › Claim loss upon the disposition of a structural component (or portion thereof) of a building
  
- › Methods to determine basis of partial disposition
  - Cost segregation
  - Discounted replacement cost (Restorations)
  - Pro-rata replacement cost or other reasonable method (Betterments)

# Partial Disposition Election



- › Election made in year of disposition by writing off the remaining tax basis at time of disposition
  - Use it or lose it!
  
- › Opportunity – one-time catch up for prior years' activity as part of change in accounting method for 2014
  - Partial dispositions
  - “Ghost” assets
  - Repairs



# **What's In / What's Out in 1031**

**Presented by  
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# Questions?



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