



Identifying Value-Added Tax Opportunities (2-29-2012)

| KBKG Service | Description | Applicable Clients/Industries | How much is it worth? | Years | Tax considerations |
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| Research & Development Tax Credits (Federal & State) | Federal and State tax credit - designed to promote technological innovation in US companies. Research must be conducted in the US, not abroad. Most Qualified Expenses are wages paid to employees conducting certain activities. Payments to contractors doing R&D for Client may also qualify. | <ul style="list-style-type: none"> • Manufacturing • Architects • Food Processing • Software Development • High Tech • Equipment or tools <ul style="list-style-type: none"> • Clients developing prototypes, testing, applying for patents, upgrading systems/software • Clients improving old products • Clients improving the manufacturing processes | <p>Federal Benefit - Roughly 6.5% of their total Qualified R&D Expenses</p> <p>Ex. Client has \$1M/year of wages related to R&D. Benefit = \$65k/year.</p> <p>Many states also allow an R&D credit. For example, CA R&D Credit is worth and additional 6% of Qualified R&D expenses.</p> | <p>Any open tax year.</p> <p>3 year Federal Statute and 4 years for some states.</p> | <p>General Business Tax Credit</p> <ul style="list-style-type: none"> • 1 year Carryback 20 year carryforward • Does not reduce AMT except for 2010 • 2010 Eligible Small Businesses (ESB) can carry credits back 5 years & eliminate AMT |
| 263(a) Repair v. Capitalization Review "Asset Retirement Study" | New Rules allow you to assign value to "structural" components removed from a building and write off the remaining basis! The new Regs also clarify repair expense treatment of many types of building costs such as HVAC or roof replacements. <i>"Plan of Rehabilitation Doctrine" is no longer valid.</i> | <p>Any building, owned more than 1 year, that then goes through renovations. Building should have at least \$1M of remaining depreciable basis left.</p> <p>Incurred significant costs for building items such as roof work, HVAC, windows, lighting, plumbing, ceilings, drywall, flooring, etc.</p> | <p>Additional Year 1 deductions of 15%-40% of "structural" renovation costs (on top of benefits from 1245 reclassification)</p> <p>Ex. Client spends \$3M on structural renovations. Additional Year 1 deductions of \$450K-\$1.2M.</p> | <p>Any building renovated or improved in the last 15 Years.</p> <p>Use Form 3115 to claim missed deductions anytime.</p> | <ul style="list-style-type: none"> • Requires a separate 3115 if doing concurrently with a depreciation change |
| Residential Energy Credits (Section 45L) (Federal / States can have similar programs) | Federal credit for developers of Apartments, Condos, or Spec Homes that meet certain energy efficiency standards. Units must be certified by a 3rd Party to be eligible. | <p>Anyone that built Apartments, Condos, or Track Home Developments in the last 4 years. Generally more than 25 units.</p> <p>Available in ALL 50 States Very Good States: CA, MA, RI, NJ, PA, GA, DE, ME, DC, WA, OR, ID, MO, IO, IL, NH</p> | <p>\$2,000 per apartment/home unit</p> <p>Ex. 100 unit apartment/condo can get \$200,000 of Federal Tax Credits.</p> | <p>Any open tax year.</p> <p>3 year Federal Statute</p> <p>Currently expires 12/31/2011 but will likely be extended.</p> | <p>General Business Tax Credit</p> <ul style="list-style-type: none"> • Credit is realized when unit is first leased or sold, not placed in service • 1 year Carryback 20 year carryforward • Does not reduce AMT except for 2010 • 2010: ESB can carry back 5 years |
| Commercial Energy Deductions (Section 179D) (Federal/ States can have similar programs) | Federal deduction for Architects, Engineers, and Design/Build Contractors that are doing work on Public or Government Buildings such as Schools, Libraries, Courthouses, Military Housing etc. This deduction is also available to any commercial building owner. | <ul style="list-style-type: none"> • 179D for Designers: Clients that are Architects or Contractors doing government work. • 179D for Any Building Owner: Clients that have constructed any commercial building greater than 50,000 SF since 1/1/2006 | <p>\$.30 up to \$1.80 per square foot in Federal Tax Deductions</p> <p>Ex. 100,000SF building is eligible for \$180,000 in deductions.</p> | <p>Can go back to 2006 and use Form 3115 to claim missed deductions.</p> <p>Currently expires 12/31/2013 but will likely be extended.</p> | <ul style="list-style-type: none"> • Reduces AMT • Generally, 2 year NOL carryback and 20 year carryforward • Deduction reduces basis in real property |
| Employment Related Tax Credits (Federal) | Federal Work Opportunity Tax Credit (WOTC) Federal Empowerment Zone Credits - Location Based Federal Health Insurance Premium Credits (FHIPC) | <ul style="list-style-type: none"> • WOTC - 500 or more employees. Location doesn't matter. • Empowerment Zones - 10 or more employees located in the designated area. • FHIPC (Section 45R) - clients w/ under 50 employees and paying health insurance | <p>WOTC - up to \$9,000 per eligible employee</p> <p>Empowerment Zone - \$3,000 per eligible employee</p> <p>FHIPC - 35% to 50% of health insurance premiums</p> | <p>Any open tax year.</p> <p>3 year Federal Statute</p> | <p>General Business Tax Credit</p> <ul style="list-style-type: none"> • Various tax considerations can be discussed with KBKG |
| CA Enterprise Zone Tax Credits (State) | California income tax credits designed to stimulate growth in 42 selected areas. Zones can change each year. Credit provided for each eligible employee and for qualified equipment purchases. | <p>Any client located in a zone with more than 20 employees spending more than 50% of their time in the zone.</p> | <p>Up to \$37,000 per eligible employee, over a 5 year period. Generally 15-35% of employees qualify.</p> <p>Equipment- Credit is equal to Sales Tax paid</p> | <p>Any open tax year.</p> <p>4 year CA State Statute</p> | <ul style="list-style-type: none"> • Credits will reduce taxes on owners W2 wages and personal return • Credits flow through to owners • Credits will offset tax at the S-Corp level |
| Cost Segregation (Federal & State) | Allows taxpayers who have constructed, purchased, expanded, or remodeled any kind of real estate to accelerate depreciation deductions by reclassifying building components into shorter tax lives. | <p>Any building with over \$750k of depreciable tax basis</p> <p>Any leasehold improvement with over \$500k of depreciable tax basis.</p> | <p>Net Present Value = 3-6% of the total building cost.</p> <p>Ex. \$2M office can yield an NPV of \$60k-\$120k.</p> | <p>Assets acquired in the last 15 Years.</p> <p>Use Form 3115 to claim missed deductions anytime.</p> | <ul style="list-style-type: none"> • Reduces AMT • Generally, 2 year NOL carryback and unused deductions carryforward • Must recapture personal property upon sale of building |
| Fixed Asset Capitalization Review (Federal) | Review of a company's entire federal tax depreciation schedule & supporting documents to assign appropriate tax lives to misclassified assets and identify items that should have been expensed under the Repair v. Capitalization Regs. | <p>Operations that are expanding with more than \$40M in Real Property</p> <ul style="list-style-type: none"> • Retail, Restaurant, Bank and Hotel Chains of 20 or more • Manufacturing • Utility Companies | <p>Net Present Value of 3-6% of the total building related cost.</p> <p>Ex. Manufacturing Client has \$60M of 39 year assets. Net Present Cash Value = \$1.8M-\$3.6M</p> | <p>Assets acquired in the last 15 Years.</p> <p>Use Form 3115 to claim missed deductions anytime.</p> | <ul style="list-style-type: none"> • Reduces AMT • Generally, 2 year NOL carryback and unused deductions carryforward • Must recapture personal property upon sale of building |



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| Property Tax Consulting: Appeal and Compliance Services <ul style="list-style-type: none"> • <i>Personal Property</i> • <i>Real Estate</i> | <p>Ensure that companies pay the minimal real estate and personal property tax amount, meet all compliance requirements and leverage available exemptions and abatements.</p> <p>Creates visibility for better property tax management as clients have 24/7 access to an online portal in which tax return information, assessment and appeals, payment and general information on their properties can be viewed. The portal is customizable and reporting can be generated by the user.</p> | <p>Personal Property: All states except DE, HI, IA, IL, MN, NH, NY, ND, PA, SD. \$100k+ tax bill</p> <ul style="list-style-type: none"> • Asset intensive Clients • Multistate locations • Manufacturing, Distribution, Oil & Gas | <p>Immediate reduction in current property tax liability. Client pays a % of savings.</p> <p>Per return fee arrangements are typical for compliance engagements</p> | <p>Year by Year although there is potential to collect a refund from prior years depending on the taxable state.</p> | <ul style="list-style-type: none"> • Requirements, rates and timelines vary by county • Late payments subject to penalties and interest • Not all assets are subject to personal property tax • Exemptions are available |
| | | <p>Real Property: All states. \$100k+ tax bill</p> <ul style="list-style-type: none"> • Commercial real estate owners • Multi-Family, Hospitality • Manufacturing, Distribution, Oil & Gas | | | |
| <p>Sales & Use Tax Review (State)</p> | <p>State tax codes are very specific regarding products & services which can be exempt from taxation. Ensure that clients did not overpay Sales and Use Taxes. Over/ Under payments are identified, quantified and submitted to the respective State for a refund.</p> | <p>Non-taxable states: NM, NH, OR, MT, AZ, DE.</p> <ul style="list-style-type: none"> • \$30 million+ in sales, greater than \$100k in audit liabilities • Multistate operations • Multiple vendor relationships • Poor accounting/tax software • Manufacturing, Oil & Gas, Hotels, Telecom, etc | <p>Refund of overpaid sales and use tax on expenditures.</p> <p>Can be significant when refund covers multiple years.</p> <p>Voluntary disclosures of unpaid tax can minimize penalties.</p> | <p>Any open periods allowed by statute of limitations. (SOL=4 years in most states)</p> | <ul style="list-style-type: none"> • Sales & Use tax state law is complex and varies by State • Over and Under payments are reviewed for a net assessment • Sampling is used for large transaction data sets |
| <p>Expense Recovery AP Audits</p> | <p>Businesses can save in the recovery of duplicate payments, vendor overpayments, unclaimed property, and cost reductions in core business services.</p> <p>Recoveries are found using proprietary software.</p> | <p>\$100 million+ in sales with 5,000+ disbursements a month.</p> <ul style="list-style-type: none"> • Clients with recent mergers/acquisitions • Decentralized processing • Client w/ large disbursement volume and many vendors. • Manufacturing, Banks & Retail (100+ locations), service providers, Oil & Gas | <p>The typical range of recoveries normally falls within .1% to .5% of spending.</p> | <p>Previous 2-3 years</p> | <ul style="list-style-type: none"> • Duplicate payment reviews (Accounts Payable Audits) normally performed in conjunction with sales tax reviews |