

INDUSTRY MATRIX FOR TAX SAVING OPPORTUNITIES



At KBKG, we are committed to identifying all possible tax saving opportunities for our clients and CPA partners. Our detailed Industry Matrix helps quickly determine which tax credits and deductions apply by industry at a glance. Our chart alone provides some insight to ensure that businesses are seeking out all potential benefits; however, KBKG's certified engineers and technical experts perform a thorough assessment during the engagement process to be sure all possible incentives are identified and considered.

INDUSTRY	R&D TAX CREDITS	REPAIR/ ASSET RETIREMENT	45L TAX CREDITS	179D TAX DEDUCTIONS	COST SEGREGATION / FIXED ASSET	IC-DISC	*TRANSFER PRICING	EMPLOYEE RETENTION TAX CREDIT
Affordable Housing		✓	✓	✓	✓			✓
Agriculture, Forestry & Fishing	✓				✓	✓	✓	✓
Architecture & Engineering	✓			✓	✓	✓		✓
Auto Dealerships		✓		✓	✓			✓
Cannabis	✓				✓			✓
Communications & Utilities	✓	✓			✓	✓		✓
Construction	✓				✓			✓
Film & Music	✓				✓	✓	✓	✓
Financial Services	✓	✓			✓		✓	✓
Government Contractors	✓			✓	✓	✓		✓
Healthcare	✓	✓		✓	✓		✓	✓
Home Builder			✓					✓
Hotels	✓	✓		✓	✓		✓	✓
Manufacturing & Distribution	✓	✓		✓	✓	✓	✓	✓
Mining	✓				✓	✓	✓	✓
Multifamily Developers		✓	✓	✓	✓			✓
Oil & Gas	✓	✓			✓		✓	✓
Pharmaceutical	✓	✓		✓	✓	✓	✓	✓
Professional Services	✓	✓			✓		✓	✓
Real Estate		✓		✓	✓			✓
Restaurants		✓			✓			✓
Retail	✓	✓		✓	✓			✓
Technology/Software	✓				✓	✓	✓	✓
Transportation	✓				✓		✓	✓
Wholesale Trade	✓	✓		✓	✓	✓	✓	✓

*May apply to any industry as long as the company has cross border subsidiaries. Industries indicated are more likely to have multinational business.

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IDENTIFYING VALUE-ADDED TAX OPPORTUNITIES



KBKG SERVICE	DESCRIPTION & HIGHLIGHTS	APPLICABLE CLIENTS & INDUSTRIES	HOW MUCH IS IT WORTH?	TAX CONSIDERATIONS
RESEARCH & DEVELOPMENT TAX CREDITS (FEDERAL & STATE)	<p>Federal and State tax credit – designed to promote innovation. Expenses incurred in the United States and that meet the qualification criteria can result in a credit.</p> <p>Qualifying expenses can include wages paid to employees, supplies used in the research process, and payments made to contractors for performing qualified research.</p>	<p>Clients developing brand new products, processes, software, or formula.</p> <p>Clients materially improving existing products, processes, software or formula.</p> <p>Clients that employ those with technical backgrounds including:</p> <ul style="list-style-type: none"> • Manufacturing • Software Development • Architecture • High Tech • Food & Beverage • Equipment or tools • Life Sciences • Agriculture 	<p>Federal Benefit - Roughly 10% of their total Qualified R&D Expenses</p> <p>Ex.: Client has \$1M/year of wages related to R&D. Benefit = \$100k in gross credits per year.</p> <p>Many states also allow an R&D credit. For example, CA R&D Credit is worth an additional 7.5% of Qualified R&D expenses.</p>	<ul style="list-style-type: none"> • Dollar-for-dollar reduction in income tax liabilities. • 1-year carryback / 20-year carryforward of unused credits. • Qualified small businesses can reduce alternative minimum tax liabilities. • Qualified start-up companies can offset up to \$250,000 in payroll taxes.
COST SEGREGATION (FEDERAL & STATE)	<p>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>	<p>Any building with over \$750k of depreciable tax basis (excluding land).</p> <p>Any leasehold improvement with over \$500k of depreciable tax basis (excluding land).</p> <p>Any smaller residential rental property with over \$150k of depreciable tax basis (excluding land) can utilize KBKG’s online software to generate a cost segregation report.</p>	<p>Net Present Value is roughly 5% of the total building cost.</p> <p>Ex.: \$2M office can yield an after-tax NPV of \$100k.</p>	<ul style="list-style-type: none"> • Reduces AMT • Starting in 2018, unused deductions carryforward. • Must recapture personal property and bonus eligible assets upon the sale of a building.
TRANSFER PRICING (INTERNATIONAL)	<p>Federal credit for developers of apartments, condos, or spec homes that meet The transfer prices of goods, royalties, services, and loans drive how much income tax is paid by country. Corrections to transfer pricing may lead to significant improvements in a company’s global effective tax rate.</p> <p>Savings dependent on differences in tax rates between countries and can be significant.</p> <p>Tax reform provides incentives for companies to generate income in the US with lower rates certain energy efficiency standards.</p> <p>Units must be certified by a qualified professional to be eligible.</p>	<p>All US and foreign-owned multinational companies.</p> <p>Transfer pricing rules apply to goods, services, royalties, loans and other cross-border transactions in all industries</p> <p>Companies with supply chain restructuring programs, new R&D facilities, or international subsidiaries are often best placed to realize benefits.</p>	<p>US tax reform has created opportunities to improve global effective tax rates through changes to transfer prices, e.g.</p> <ul style="list-style-type: none"> • Foreign Derived Intangible Income (“FDII”) allows C-Corporations to pay a 13.125% rate on some export income • Changes to transfer prices of imported goods may also lead to tax savings at the 21% rate. • Substantial benefits when correcting transfer pricing to utilize tax net operating losses. 	<p>Companies without transfer pricing documentation can face additional tax, interest, non-deductible penalties and double tax for all open tax years.</p> <p>Tax authorities are concerned about multinational companies paying their “fair share” of income tax in each country where they operate.</p>

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RESIDENTIAL ENERGY CREDITS / SECTION 45L (FEDERAL / STATES CAN HAVE SIMILAR PROGRAMS)	<p>Federal credit for developers of apartments, condos, or spec homes that meet certain energy efficiency standards.</p> <p>Units must be certified by a qualified professional to be eligible.</p>	<p>Anyone that has built apartments, condos or production home developments (3 stories or less), in the last 4 years.</p> <p>Generally, more than 20 units.</p>	<p>Federal credit = \$2,000 per apartment/home unit.</p> <p>Many states have similar credits.</p> <p>Ex.: 100-unit apartment/condo can get \$200,000 of Federal Tax Credits.</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. • Subject to passive activity loss rules • Credit reduces basis.
COMMERCIAL ENERGY DEDUCTIONS / SECTION 179D (FEDERAL/ STATES CAN HAVE SIMILAR PROGRAMS)	<p>Federal deduction for architects, engineers, and design/build contractors that work on public or government buildings such as schools, libraries, courthouses, military housing etc.</p> <p>Also available to any commercial building owner.</p>	<ul style="list-style-type: none"> • 179D for designers: Architects, general contractors, engineers, electrical & HVAC subcontractors. • Any building owner or lessee: That has constructed a commercial improvement 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>	<ul style="list-style-type: none"> • Reduces AMT • Deduction reduces basis in real property. • Designers must amend open tax years to claim. • Owners can go back to 2006 with Form 3115 to claim missed deductions.
FIXED ASSET TAX REVIEW (FEDERAL)	<p>Comprehensive review of a company's entire fixed asset listing and supporting documents to assign appropriate tax lives, identify retirements, and correct items that should be expensed.</p> <p>Includes cost segregation and repair analysis.</p>	<p>Operations with > \$40M in real property or > 500 lines of fixed assets.</p> <ul style="list-style-type: none"> • Retail, restaurant, bank and hotel chains of 10 or more • Manufacturing • Utility companies 	<p>Net present value (NPV) of 5-8% of total building-related costs.</p> <p>Ex.: Manufacturing client has \$60M of 39-year fixed assets.</p> <p>NPV Cash value = \$3M -\$4.8M</p>	<ul style="list-style-type: none"> • Reduces AMT • Starting in 2018, unused deductions carryforward. • Must recapture personal property and bonus eligible assets upon the sale of a building.
REPAIR V. CAPITALIZATION REVIEW "ASSET RETIREMENT STUDY" (FEDERAL)	<p>New rules allow you to assign value to "structural" components removed from a building and write off the remaining basis. Regs also clarify repair expense treatment of many types of building costs such as HVAC or roof replacements.</p> <p>KBKG also provides compliance consulting for repair and disposition regulations.</p>	<p>Any building renovation costs > \$400k</p> <p>Retirement Study - Building is renovated AFTER owning it at least 1 year. Building should have > \$500K of remaining depreciable basis left.</p> <p>Repair Study - renovations that include roof, HVAC, windows, lighting, plumbing, ceilings, drywall, flooring, etc.</p>	<p>Additional Year 1 deductions of 15%-40% of 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>	<ul style="list-style-type: none"> • Depending on project specifics, may require a separate 3115 if doing concurrently with a depreciation change.
IC-DISC FEDERAL INCOME TAX INCENTIVE (FEDERAL)	<p>The IC-DISC provides significant and permanent tax savings for producers and distributors of U.S.-made products and certain services used abroad.</p>	<p>Any closely held, privately owned business with over \$250,000 in profits from exports</p> <ul style="list-style-type: none"> • Manufacturers • Distributors • Architects & Engineers • Agriculture and Food Producers • Software Developers • Other Producers 	<p>Minimum permanent 17% decrease in tax rate on half of export profits.</p> <p>Benefits can be dramatically higher by performing a transaction-by-transaction analysis.</p>	<ul style="list-style-type: none"> • Requires annual filing 1120 IC-DISC. • No changes to business operations. • Benefits begin when entity is formed.

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