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LIST OF SUBSTANTIVE CHANGES AND ADDITIONS

PPC's Guide to Real Estate

Twenty-sixth Edition (September 2018)

Highlights of this Edition

The following are some of the important new features of the 2018 Edition of *PPC's Guide to Real Estate*:

- **Recent FASB Activity.** The FASB recently issued ASUs that may affect real estate accounting and reporting. Your *Guide* provides discussions of those recently-issued ASUs as applicable, including ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. Your *Guide* also includes discussions of significant, soon-to-be-effective accounting requirements dealing with revenue recognition and leases, including recently issued guidance in ASU 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*, ASU 2018-10, *Codification Improvements to Topic 842, Leases*, and ASU 2018-11, *Leases (Topic 842): Targeted Improvements*.
- **Availability of the cash method of accounting is greatly expanded.** Generally, taxpayers required to maintain inventories for tax purposes must use the accrual method. In the past, various exceptions to these rules applied to taxpayers with certain levels of gross receipts. Under these exceptions, taxpayers who would otherwise be required to use the accrual method were permitted to use the cash method. The gross receipts threshold has been increased and made uniform by the Tax Cuts and Jobs Act of 2017 (TCJA).
- **Bonus Depreciation and Section 179 Expensing.** The TCJA significantly changed the provisions that allow taxpayers to currently expense some or all of their capital improvements. Generally, the changes are quite favorable. This edition of the *Guide* explains the changes and provides related planning tips.
- **Limit on excess business losses.** For years beginning after 2017, the TCJA limits a noncorporate taxpayer's net business losses (including pass-through losses from partnerships and S corporations).

In addition to these featured items, your *Guide* includes the following update items detailed below.

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
CHAPTER 1 Overview	1. Expanded the discussion of GAAP applicable to the real estate industry to include FASB ASC 606, <i>Revenue from Contracts with Customers</i> , and FASB ASC 842, <i>Leases</i> .	Section 103
	2. Updated the discussion concerning ASU 2016-01, <i>Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities</i> , for amendments in ASU 2018-03, <i>Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities</i> .	Section 104

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
CHAPTER 2 Land Development Costs	1. Updated the discussion concerning the impact of fair value and cash flow hedges in determining the interest capitalization rate for ASU 2017-12, <i>Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities</i> .	Section 202
	2. Updated the discussion of the relative sales value method required for time-share projects for ASU 2014-09, <i>Revenue from Contracts with Customers (Topic 606)</i> .	Section 204
CHAPTER 3 Building Costs	1. Updated the discussion of selling costs for ASU 2014-09.	Section 301
	2. Added a footnote to the discussion of real estate literature applicable to commercial building for ASU 2014-09.	Section 302
	3. Added a footnote to the discussion of selling costs applicable to commercial building for ASU 2014-09.	Section 302
	4. Updated the discussion of selling costs of time-shares for ASU 2014-09.	Section 302
CHAPTER 4 Sales of Real Estate Other Than Retail Land Sales	1. Added footnotes to various discussions regarding methods used to recognize gains on real estate sales for ASU 2014-09.	Various
	2. Added a footnote to the discussion of accounting for sales in which the seller has a noncontrolling interest in the buyer for ASU 2016-01, <i>Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities</i> .	Section 403
	3. Added a footnote to the discussion of accounting for incidental rental operations for ASU 2016-02, <i>Leases (Topic 842)</i> .	Section 405
	4. Added a footnote to the discussion concerning exchanges of real estate for ASU 2014-09.	Section 406
	5. Updated the discussion concerning exchanges of nonmonetary assets for the issuance of ASU 2017-01, <i>Business Combinations (Topic 805): Clarifying the Definition of a Business</i> .	Section 406
CHAPTER 6 Leasing Real Estate	1. Clarified the sources of accounting guidance for sales-type leases of real estate before and after the adoption of ASU 2014-09.	Section 601
	2. Updated a footnote for the issuance of Staff Action Bulletin No. 116 and ASU 2017-14, <i>Income Statement—Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue from Contracts with Customers (Topic 606): Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 116 and SEC Release No. 33-10403</i> .	Section 604

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
	3. Updated the appendix for ASU 2018-01, <i>Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842</i> , ASU 2018-10, <i>Codification Improvements to Topic 842, Leases</i> , and ASU 2018-11, <i>Leases (Topic 842): Targeted Improvements</i> .	Appendix 6A
CHAPTER 7 Sale-leaseback Transactions	1. Updated the footnote regarding ASU 2016-02.	Section 700
	2. Updated the discussion of integral equipment.	Section 700
CHAPTER 9 Investments In Real Estate Ventures	1. Added a footnote to the discussion of selecting an accounting method for investments in partnerships and ventures for ASU 2016-01.	Section 901
	2. Added a footnote to the discussion concerning how to account for capital contributions under the equity method of accounting for ASU 2018-07, <i>Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting</i> .	Section 902
	3. Revised the illustrative examples regarding the acquisition of an additional equity interest for ASU 2016-07, <i>Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting</i> .	Section 902
	4. Expanded the discussion regarding the sale of an ownership interest in the venture for ASU 2014-09.	Section 902
CHAPTER 10 Financial Statement Considerations	1. Added a footnote regarding ASU 2014-09 to the discussions of loans receivable, revenue, and expenses.	Sections 1001 and 1002
	2. Expanded the discussion of revenue-related presentation matters.	Section 1001
	3. Updated the discussion of preparing the statement of cash flows for ASU 2016-15, <i>Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments</i> .	Section 1004
	4. Updated the discussion of presenting comprehensive income for ASU 2017-12, <i>Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities</i> .	Section 1005
	5. Added a footnote to the discussion of the cost method of accounting for ASU 2016-01.	Section 1006

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
	6. Updated the discussion concerning an entity's capital structure for ASU 2017-11, <i>Earnings Per Share (Topic 260)</i> , <i>Distinguishing Liabilities from Equity (Topic 480)</i> , and <i>Derivatives and Hedging (Topic 815): (I) Accounting for Certain Financial Instruments with Down Round Features and (II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Limitation</i> .	Section 1006
	7. Added footnotes to the discussions concerning fair value of financial instruments not presented at fair value in the financial statements and the fair value option for ASU 2016-01.	Section 1007
Real Estate Checklists and Practice Aids	1. Updated the checklist of financial statement disclosure requirements for changes in authoritative literature.	ARE-PA-10.1
CHAPTER 12 Tax Subdivision and Development	1. Updated the discussion on the cash method of accounting for changes made by the TCJA that allow the use of the cash method for taxpayers with average gross receipts of \$25 million or less.	Section 1203
	2. Updated the discussion on the requirement to maintain inventories or to use UNICAP for changes made by the TCJA that allow the cash method of accounting for taxpayers meeting the \$25 million average gross receipts exception.	Section 1203
	3. Expanded the discussion of the economic performance test which determines when accrual method taxpayers can deduct expenses.	Section 1203
	4. Updated the discussion on deducting real property taxes for changes made by the TCJA.	Section 1203
	5. Noted the issuance of an updated revenue procedure to follow for automatic accounting method changes.	Section 1203
	6. Added a discussion on the new IRC Sec. 451(b) issued by the TCJA that addresses when income is recognized for accrual basis taxpayers.	Section 1203
	7. Discussed IRC Sec. 451(c) issued by the TCJA that addresses the recognition of income from advance payments.	Section 1203
	8. Updated the discussion on the completed contract method of accounting for changes made by the TCJA that allow the use of this method for taxpayers with average gross receipts of \$25 million or less.	Section 1204
	9. Updated for the repeal of alternative minimum tax (AMT) for C corporations.	Section 1205
	10. Noted the repeal of the domestic production activities deduction (DPAD).	Section 1214

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
	11. Noted changes made by the TCJA in the ability to deduct entertainment expenses after 2017.	Section 1215
	12. Updated the construction contractor's tax return checklist for changes related to the TCJA.	Appendix 12G
	13. Added a new appendix summarizing the economic performance rules, and timing of payment and deductions.	Appendix 12M
CHAPTER 13 Tax Operations and Leasing	1. Noted changes made by the TCJA to the like-kind exchange (LKE) rules.	Section 1303
	2. Added a detailed discussion on new IRC Sec. 163(j) created by the TCJA that limits excess business interest expense.	Section 1304
	3. Added new worksheets detailing the calculation of the limit on business interest expense under IRC Sec. 163(j) for S corporations, partnerships, and C corporations.	Appendix 13L Appendix 13M Appendix 13N
CHAPTER 14 Tax Limitations on Real Estate Losses	1. Discussed changes made by the TCJA in the calculation of basis in partnership interests regarding charitable contributions and foreign taxes.	Section 1401
	2. Noted the court's ruling in the <i>Meruelo</i> case.	Section 1401
	3. Added a discussion on the new limit on excess business losses added by the TCJA.	Section 1404
	4. Updated the discussion on the interaction of basis, at-risk, passive activity loss, and excess business loss limitations.	Section 1407
	5. Discussed the IRS's nonacquiescence with the court's findings in the <i>Stanley</i> case.	Section 1410
	6. Updated the discussion on qualifying as a real estate professional to meet the exception in IRC Sec. 469(c)(7) by adding recent court case decisions— <i>Franco</i> , <i>Pourmirzaie</i> , and <i>Zarrinnegar</i> .	Section 1410
	7. Noted that real property trades or businesses can elect out of the business interest expense limitation, but in return they must use the alternative depreciation system (ADS) to depreciate the applicable real property.	Section 1410
CHAPTER 15 Tax Dispositions of Real Estate	1. Discussed the <i>CRI-Leslie</i> case related to capital gain vs. ordinary income treatment of a forfeited deposit.	Section 1501
	2. Added a discussion of the new qualified opportunity investment fund added by the TCJA that provides for temporary and permanent deferral of gains from the sale of property located within opportunity zones established by the TCJA.	Section 1502

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
	3. Added a discussion of the <i>Sugar Land Ranch</i> case that dealt with whether the LLC held land for investment, and thus was eligible for capital gains treatment on the sale of the land. Also referenced the <i>Conner</i> case that had a similar decision.	Section 1507
	4. Discussed the impact of IRC Sec. 163(j) limiting the deduction of business interest on the installment sale interest charge rules.	Section 1508
	5. Noted that for tax years beginning after 2017, the method for computing the annual inflation adjustment under IRC Sec. 1274A has changed.	Section 1509
	6. Discussed the safe harbors available under Rev. Proc. 2018-8 for use in determining the casualty loss deduction for personal residential property in federally declared disaster areas.	Section 1513
	7. Added a discussion of the AOD indicating the IRS's nonacquiescence with the decision in the <i>Bartell</i> case.	Section 1514
	8. Discussed the revised like-kind exchange (LKE) rules that limit LKE treatment to real property.	Section 1514
	9. Added new cases related to charitable contributions of conservation easements.	Section 1516
CHAPTER 16 Tax Depreciation and Credits	1. Analyzed changes under the TCJA dealing with bonus depreciation, including: <ul style="list-style-type: none"> ● The increase to 100% for first-year bonus depreciation through 2022. ● Bonus depreciation calculations for luxury autos. ● Changes in the definition of qualified property. ● Original use and acquisition tests. ● Electing out of bonus depreciation. ● The effect bonus depreciation can have for businesses subject to the excess business interest expense limitation. 	Section 1601
	2. Addressed the TCJA's new definition of qualified improvement property. The new definition encompasses property that used to fall under the definition of qualified leasehold improvements, qualified restaurant property, and qualified retail improvement property.	Section 1601
	3. Added a discussion on the interaction of the limit on excess business interest expense under IRC Sec. 163(j) with bonus depreciation.	Section 1601
	4. Updated the discussion on LKEs for changes made by the TCJA.	Section 1601
	5. Updated the definition of listed property under IRC Sec. 280F for changes made by the TCJA.	Section 1601

Chapter**Substantive Changes and Additions****Reference**

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| 6. | Addressed the changes made to Section 179 expensing by the TCJA, which include: <ul style="list-style-type: none">● An increase in the maximum amount that can be expensed on an annual basis.● An increase in the dollar limitation of qualified property placed in service that will affect the amount that can be expensed under IRC Sec. 179.● Additional items that qualify for Section 179 expensing. | Section 1606 |
| 7. | Updated the discussion on rehabilitation credits for changes made by the TCJA, including: <ul style="list-style-type: none">● Changes to the definition of qualified rehabilitated buildings.● Transition rules for the changes made by TCJA.● Changes from a two-tier tax credit to a single-tier tax credit. | Section 1608 |
| 8. | Updated the discussion on qualified low-income housing credits for an additional test that can be used to determine if a project qualifies for the credit. | Section 1610 |
| 9. | Added a table comparing Section 179 expensing and bonus depreciation after the TCJA changes. | Appendix 16K |

