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LIST OF SUBSTANTIVE CHANGES AND ADDITIONS

PPC's Specialized Industry Tax Guide

20th Edition (August 2018)

Highlights of this Edition

The following are some of the important new features of the 2018 Edition of *PPC's Specialized Industry Tax Guide*:

- **2017 Tax Cuts and Jobs Act (TCJA).** This significant tax reform law is generally effective for tax years beginning after 2017. This *Guide* has been updated to explain the new provisions and associated planning opportunities.
- **Qualified business income deduction.** The TCJA added a new qualified business income deduction for years beginning after 2017. Not all types of income qualify and there are many limits and phaseouts. This edition of the *Guide* includes detailed guidance on computing the deduction in general, as well as specific guidance with respect to how income from each industry will be treated for this deduction. This edition has been updated for the proposed regulations issued in August 2018, on which taxpayers may rely.
- **Real estate.** We discuss changes to the definition of qualified improvement property under the TCJA which, absent a technical correction, results in such property being depreciated over a 39½ year recovery period with no bonus depreciation available.
- **Bonus Depreciation.** Regulations issued in August 2018 provided guidance on applying the TCJA changes to the bonus depreciation rules, including the rules applied to improvements placed in service in 2017 and when property is considered to be previously held by the taxpayer for the acquisition test.
- **Availability of the cash method.** The TCJA significantly expanded the universe of taxpayers who qualify to use the cash method. We address this change for each of the industries covered in this *Guide*.
- **Reduced corporate income tax rate.** For tax years beginning after 2017, C corporations are taxed at a flat 21%. The corporate tax rate has not been lower than the highest individual rate for decades. Practitioners must evaluate their clients' choice of entity based on this change, but must also consider the new QBI deduction, which is not available to C corporations. This *Guide* has been updated to consider this change in events.
- **Retailers' customer loyalty reward programs.** The IRS has issued a legal advice memorandum on when a deduction under a loyalty reward program can be accrued.
- **Inflation-adjusted amounts.** Numerous topics have been updated for the 2018 inflation-adjusted amounts, including Section 179 expensing limits, qualified retirement plan contribution, and deduction limits, and depreciation limits on passenger automobiles.

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 Licensed Professionals	1. Addressed the repeal of the deduction for entertainment expense and its effect on the deduction for business meals.	Section 101
	2. Expanded and revised the choice of entity discussion to address the reduced corporate income tax rate and new qualified business income (QBI) deduction under the TCJA.	Section 102
	3. For Checkpoint subscribers to this product, a new choice of entity tax analyzer tool is available that can be used to evaluate the different business entity forms based on the recent changes made by the TCJA.	Section 102
	4. For the QBI deduction, most licensed professionals will be considered a specified service business. This edition includes a new section on planning to maximize the QBI deduction with respect to a specified service business.	Section 103
	5. Revised the discussion of personal service corporations to reflect the reduced corporate income tax rate and discuss related new planning opportunities.	Section 104
	6. The availability of the cash method and the exception from the requirement to maintain inventories were expanded under the TCJA. We have added a discussion of how these new provisions affect licensed professionals.	Section 105
	7. Revised the discussion of compensating licensed professionals to consider the changes in the corporate tax rate.	Section 106
CHAPTER 2 Real Estate Owners and Operators	1. Added coverage of a new limit on business interest expense added by the TCJA, as well as an available election out of the limit for real property businesses.	Section 200
	2. Noted the TCJA expansion of the group of taxpayers not required to apply the uniform capitalization rules.	Section 202
	3. Added discussion of how the QBI deduction applies to real estate owners and operators.	Section 204
	4. Covered TCJA changes to depreciation and Section 179 expensing for real estate, including changes in the recovery period for some assets, changes to the types of real estate that qualify for bonus depreciation and Section 179 expensing and the increased bonus depreciation percentage.	Section 209
	5. Addressed the <i>CRI Leslie</i> case on whether gain or loss attributable to the cancellation or other termination of a right with respect to property used in a trade or business can qualify for capital gain treatment under IRC Sec. 1234A.	Section 210
	6. Added discussion of the new excess business loss rule under the TCJA.	Section 211

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
	7. Added the <i>Keefe, Levitz and Sugar Land Ranch Development</i> cases on whether real property is a capital asset in the taxpayer's hands.	Section 212
	8. Updated the discussion of like-kind exchanges for the TJCA change limiting Section 1031 gain deferral to real property, including a new example of an exchange that includes both real and personal property.	Section 215
	9. Updated the discussion of the rehabilitation credit for the TCJA changes, including the elimination of the credit for certain buildings that are not certified historic structures and deferral of the credit.	Section 216
CHAPTER 3 Ministers	1. Added a discussion of how the new QBI deduction applies to ministers.	Section 303
	2. Added a discussion of the <i>Gaylor</i> case, in which a district court found the parsonage allowance exclusion unconstitutional.	Section 303
	3. Updated discussions to reflect the temporary suspension of miscellaneous itemized deductions, including unreimbursed employee business expenses.	Throughout
CHAPTER 4 Athletes and Entertainers	1. Added a discussion of the availability of the new QBI deduction to athletes.	Section 401
	2. Updated the discussion of moving expenses for TCJA changes.	Section 401
	3. Updated the discussion of using a loan-out corporation to employ an entertainer in light of the reduced corporate tax rate and the new QBI deduction.	Section 404
	4. Added a discussion of the availability of the new QBI deduction to entertainers.	Section 406
CHAPTER 5 Retail Stores	1. Added discussion of an IRS legal memorandum addressing when to accrue an expense for future redemptions of fuel card rewards.	Section 502
	2. Addressed the new \$25 million gross receipts threshold for using the cash method of accounting, which greatly expands the universe of taxpayers allowed to use it.	Section 502
	3. Updated the discussion of the accrual method of accounting for the new <i>applicable financial statement conformity</i> rules.	Section 502
	4. Added a new section on the QBI deduction and how it applies to retailers.	Section 503
	5. Discussed new IRC Sec. 451(c), which consolidates and in some cases supersedes existing guidance on when accrual method taxpayers include advance payments in income.	Section 504
	6. Updated the discussion of gift card sales in light of new IRC Sec. 451(c).	Section 504

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	7. Added discussion of changes to bonus depreciation and Section 179 expensing under the TCJA.	Section 504
	8. Covered the issues associated with the new class of property, <i>qualified improvement property</i> , added to the Code under the TCJA and the elimination of <i>qualified retail improvements</i> .	Section 504
	9. Updated the discussion of meals provided to customers at promotional events to address changes to IRC Sec. 274 under the TCJA.	Section 504
	10. Added a discussion of the exemption from the IRC Sec. 471 inventory and Section 263A uniform capitalization rules for taxpayers who meet the \$25 million gross receipts test.	Section 505
CHAPTER 6 Restaurants and Bars	1. Added a discussion of the sale of a franchise, including the <i>Greenteam Materials Recovery Facility</i> case where the court found the sale of certain contractual rights qualified for capital gain treatment.	Section 602
	2. Covered the issues associated with the new class of property, <i>qualified improvement property</i> , added to the Code under the TCJA and the elimination of <i>qualified restaurant improvements</i> .	Section 602
	3. Covered the TCJA expansion of the group of taxpayers excepted from the UNICAP rules.	Section 602
	4. Discussed the TCJA expansion of the group of taxpayers allowed to use the cash method and how it affects taxpayers in the restaurant business.	Section 602
	5. Covered TCJA changes to the rules for meals provided to employees.	Section 602
CHAPTER 7 Consultants	1. Added a discussion of how the QBI deduction applies to consultants.	Section 700
	2. Updated the discussion of depreciating autos used in an individual's business for TJCA changes to the Section 280F depreciation limits.	Section 701
CHAPTER 8 Small Manufacturers	1. Discussed the TCJA expansion of the group of taxpayers allowed to use the cash method and how it affects manufactures.	Section 800
	2. Updated the discussion of recognizing income under the accrual method to address the new applicable financial statement conformity rule.	Section 801
	3. Discussed the TCJA changes to the rules for recognizing for advance payments as income under the accrual method.	Section 801
	4. Added a discussion of how the QBI deduction applies to manufacturers.	Section 804
	5. Noted repeal of the Section 199 domestic production activities deduction.	Section 804
	6. Updated discussion of accounting for inventories for TJCA changes, including expansion of the small taxpayer exception and rules for figuring costs of goods sold when inventories are not required for tax.	Section 805

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
	7. Updated discussion of Section 179 expensing for TCJA change to the definition of qualified real property.	Section 806
	8. Added discussion and planning tip for manufacturers who exchange machinery and equipment in a trade-in program, based on TJCA elimination of like-kind exchange treatment for personal property.	Section 806
	9. Noted that research and experimentation cost incurred after 2021 must be capitalized and amortized.	Section 807
CHAPTER 9 Construction Contractors	1. Updated the discussion of income recognition under the accrual method for the new applicable financial statement conformity rule.	Section 900
	2. Updated the discussion for the increase in average annual gross receipts test to use the cash method of accounting.	Section 900
	3. Updated the discussion for taxpayers exempt from UNICAP rules if annual average gross receipts are \$25 million or less.	Section 901
	4. Updated discussion for small contractors required to use the percentage of completion method (PCM).	Section 901
	5. Noted the repeal of the alternative minimum tax for corporate taxpayers.	Section 902
CHAPTER 10 Farmers and Ranchers	1. Updated discussion of farm income averaging to consider the effect of lowered individual income tax rates for 2018–2025.	Section 1001
	2. Noted the TCJA change that expands the availability of the cash method for C corporations and partnership with C corporation partners.	Section 1002
	3. Discussed the TCJA expansion of the small taxpayer exception to the UNICAP rules and a more expansive exception to those rules for certain taxpayers who replant citrus crops lost due to casualty.	Section 1002
	4. Added a new section discussing the QBI deduction for farmers, including the special rules that apply to farmers who receive qualified payments from an agricultural cooperative.	Section 1006
	5. Covered the <i>Robison</i> case on material participation in a farming activity.	Section 1007
	6. Revised the discussion of net operating loss carryback for TCJA changes with respect to all NOLs and to farming losses. Also added a new sample election to use for electing out of the two-year carryback for farming losses.	Section 1013; Appendix 10I
	7. Added the <i>Wicks</i> and <i>Welch</i> cases, where taxpayers successfully avoided hobby classification.	Section 1014

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
	8. Added the <i>Rutkoske</i> case on the types of income included in gross income from farming for determining whether the taxpayer is qualified farmer for the qualified conservation easement rules.	Section 1015
	9. Updated the discussion of depreciation for TCJA changes for property used in a farming business.	Section 1017
	10. Covered the TCJA changes that repealed the limit on excess farm losses and replaced it with a limit on excess business losses for all taxpayers other than C corporations.	Section 1017
	11. Added a discussion of the available election out of the business interest expense limit added by the TCJA for farming businesses.	Section 1017
CHAPTER 11 Nonprofit Organizations	1. Noted that Form 1024-A, Application for Recognition of Exemption Under Section 501(c)(4), is used to apply for exempt status of certain exempt organizations.	Section 1101
	2. Added an observation about the impact of the TCJA on contributions to charitable organizations.	Section 1101
	3. Noted that Section 501(c)(4) social welfare organizations must file Form 8976 within 60 days of formation.	Section 1101
	4. The excise tax charged to certain exempt organizations for the political activities has changed because of the TCJA.	Section 1102
	5. Added agricultural research organizations to list of public charities.	Section 1103
	6. Added an alert for the exception from the excess business holding tax specified by the Bipartisan Budget Act of 2018.	Section 1103
CHAPTER 12 Investors, Traders, and Dealers	1. Updated to discuss the new rules for capital gains tax rates and definitions provided for in the TCJA.	Section 1201
	2. Added two new tips and an example regarding the Section 1202 exclusion for qualified business stock.	Section 1205
	3. Noted that investment expenses under IRC Sec. 212 are nondeductible as a miscellaneous itemized deduction from 2018–2025 due to the TCJA.	Section 1206
	4. Mentioned the <i>Coinbase, Inc.</i> case and the IRS's ability to request certain information regarding virtual currency owners.	Section 1211
	5. Noted that the deduction for home equity interest has been suspended under the TCJA, make qualifying debt as investment debt more important.	Section 1212
	6. Added an observation that net investment income will not be offset by Section 212 expenses from 2018–2025 since they are nondeductible as a miscellaneous itemized deduction from 2018–2025 due to the TCJA.	Section 1215

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
CHAPTER 13 Oil and Gas	7. Noted items in the net investment income calculation that were affected by the TCJA and whether they are still deductible in the current year.	Section 1215
	1. Noted the repeal of the Section 199 domestic production activities deduction.	Section 1302
	2. Added a discussion of the different types of income associated with mineral interests that might be QBI for the new deduction.	Section 1303
	3. Addressed a letter ruling where taxpayers were allowed to aggregate royalty interests for determining the depletable property.	Section 1303
	4. Noted how the TCJA changes to bonus depreciation and Section 179 expensing apply to assets used in oil and gas operations.	Section 1305
	5. Added a discussion of the types of mineral interests that qualify as real property and thus qualify for a like kind exchange under the TCJA changes to the like kind exchange rules.	Section 1307
	6. Updated the discussion of the enhanced oil recovery credit based on the updated reference price for oil.	Section 1309
	7. Updated the discussion of the marginal well production credit to note that, based on the reference price for gas, the credit is available for gas for 2016 and can be claimed on an amended return.	Section 1309
	8. Expanded discussion of income from a publicly traded partnership (PTP) to explain when such income could be eligible for the QBI deduction.	Section 1310
9. Noted a letter ruling finding that a PTP's income from refining activities was qualifying income under IRC Sec. 7704.	Section 1310	

