Taxes for Real Estate Professionals

Integrity in Tax & Accounting 920-277-2991 www.integrityintaxllc.com

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Bonus Depreciation

A reminder to have cost seg studies completed on properties purchased in 2019 to deduct depreciation of 5, 15, and 20 year property on your 2019 tax return.

IRS Revises EIN Process

The IRS has announced when applying for an Employer Identification Number (EIN), the responsible party must either have a Social Security Number or Individual Tax Identification Number (ITIN). The *responsible party* is generally the person who ultimately owns or controls the entity. According to the IRS, this change will prevent entities from using their own EINs to obtain additional EINs and will bring greater security to the EIN process. News Release IR 2019-58.

Prior Month's Newsletters

are available on our website at www.integrityintaxllc.com – click on Real Estate Professionals.

Would you like to receive this Newsletter by email each month? Email us at info@integrityintaxllc.com to be added to our distribution list.

Standard Mileage Rates 2019

Business = $0.58

Medical = $0.20

Charity = $0.14

Tax Reform

* Standard Deduction:
$12,200 Single
$24,400 Married Filing Joint
$18,350 Head of Household

* Personal Exemption is eliminated for Tax Years 2018 - 2025.

* Child Tax Credit:
Increase to $2,000 per child under age 17. Dependents over age 17 may qualify for $500 credit.

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Opportunity Zones: Investing in Low-Income Areas

To peak your interest in reading this article from beginning to end, we'll start with the tax incentives of purchasing property in areas that are designated as Qualified Opportunity Zones.

Tax Incentives:

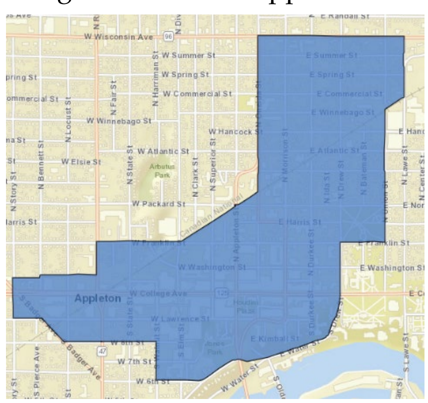
The three primary tax incentives to investing in a Qualified Opportunity Zone are:

1. Defer capital gains invested until December 31, 2026.
2. Reduce capital gains invested by as much as 15%.
3. Exclude capital gains on Qualified Opportunity Zone property held for at least 10 years.

To receive the above incentives, investments in Qualified Opportunity Zones must flow through a newly created investment called the Qualified Opportunity Fund (QOF). This sounds much more complex and scarier than it actually is. So, we'll start at the beginning with a high-level overview of investing in these areas.

Opportunity Zones, created by the 2017 Tax Cuts and Jobs Act, are designed to spur investment in low-income, distressed communities throughout the country through tax benefits. These low-income, distressed communities are home to approximately 52.3 million Americans (17% of US population). Under a nomination process completed in June 2017, 8,761 communities in all 50 states, the District of Columbia and five U.S. territories were designated as Qualified Opportunity Zones. These designations are effective through December 31, 2028.

Below is a map of the designated zone in Appleton.



Appleton; Outagamie County; Opportunity Zone: 55087010100

A map of the designated zones in the Fox Cities area has been attached as a pdf to those who subscribe receive this newsletter via email. By using this attached map, you can zoom in for streets in the area.

The Opportunity Zone Map can also be accessed here using this link - https://opportunitydb.com/tools/map/.

For ease of explaining in this article, a new company is created as a corporation or a partnership and self-certifies to the IRS that it is a Qualified Opportunity Fund. The Fund must invest and hold at least 90% of its assets in Qualified Opportunity Zones. For Real Estate Investors, this is most likely to be residential property. However, the Fund can also purchase businesses in the designated zones. The Fund must substantially improve the property within 30 months (2 ½ years) by spending more on improvements than was spent on acquisition. The longer the property in the Qualified Opportunity Zone is held by the Fund, the greater the tax incentives. For instance, a property that is held for at least 5 years will have 10% of the deferred gain permanently forgiven. If held for 7 years, an additional 5% of the deferred gain is permanently forgiven. If held for at least 10 years, tax on the deferred gain is permanently 100% forgiven.

Steps to Purchase Property in Qualified Opportunity Zones:

As complex as this topic may seem, the steps are relatively easy to start investing in property that is within these designated zones.

- Step 1: Create a Corporation or Partnership.
- Step 2: Sell an existing asset.
- Step 3: Locate property within the Qualified Opportunity Zone & invest the gain portion of the above sale within 180 days.
- Step 3: Substantially improve the property over the next 30 months.

Tax Filings:

The Qualified Opportunity Fund files a tax return each year depending on the type of entity. For example, a partnership files Form 1065 and each Partner receives a K-1 to include on their personal tax return. Form 8996 is also required to be filed every year with the tax return in which the Fund self-certifies that it is organized for the purpose of investing in opportunity zones and it meets the 90% asset criteria.

Summary:

This article is a quick overview of the Qualified Opportunity Zones and how to start investing in property that is designated within these zones. It is also important to note that every property in a designated zone may not qualify for these tax incentives. The property must be substantially improved by the investor spending more on improvements than the purchase price. For properties that do not qualify, like-kind exchanges and taking advantage of the accelerated depreciation through a cost segregation study remain strategy's to reduce taxes.

Additional information is available on the IRS website FAQ at https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions.

Learn More:

If you are interested in learning more about Qualified Opportunity Zones and would like to attend a presentation, please email us at info@integrityintaxllc.com with your name and availability. We most certainly would love to host a presentation Free to WiscoReia Member's.

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IRS Mails CP2000 Notices

IRS is mailing what is known as a CP2000 Notice to taxpayers. This notice is generated when there is a discrepancy on the IRS computers between income and deductions reported on individual tax returns and data collected from third party information returns such as W-2's and 1099's. If you receive a letter, check your records. Generally, the IRS is proposing a change to your tax return that results in a tax amount due. If you agree with the proposed changes, return the form with payment. If you do not agree with the proposed changes, you must send the form back to the IRS with a written explanation and copies of documentation within 30 days of the date on the letter.

If you require assistance responding to a letter, we are more than happy to assist you.

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Recent News & Court Cases

IRS Issues Spring 2019 *Statistics of Income Bulletin*: The IRS has released the Spring 2019 issue of the *Statistics of Income Bulletin*, which features data on 2016 sole proprietorship and partnership returns. For that year, taxpayers reported nonfarm sole proprietorship activity on approximately 25.5 million individual income tax returns (a 1.2% increase from 2015). Profits fell to $328.2 billion, which is a 1.1% decrease from 2015. The largest increase in profits (19.6% from 2015) was reported by the arts, entertainment, and recreation sector. In addition, partnerships filed more than 3.7 million returns for 2016, representing more than 28 million partners. Almost half of all partnerships (49.9%) and over a quarter of all partners (29.7%) came from the real estate and leasing sector. The full report is available at www.irs.gov/statistics/soi-tax-stats-soi-bulletin-spring-2019 . IRS Tax Stats Dispatch 2019-10.

Income Tax—Attorney's Private Airplane Rental Was Passive Activity: The taxpayer maintained a part-time law practice. Additionally, he operated a telephone sales training business as a sole proprietorship. He purchased an airplane through his training business and entered into agreements with flight schools to market and rent the plane to pilot trainees. On his Schedule C for the sales training business, the taxpayer reported the losses from his airplane activity, offsetting income from his other rental businesses on Schedule E. The Tax Court disallowed the losses under the passive activity loss rules. The Ninth Circuit affirmed, holding that the Tax Court properly found that the taxpayer's airplane rental and sales training activities did not constitute an appropriate economic unit. Because he did not materially participate in the airplane activity for more than 500 hours, the taxpayer could not deduct the losses in excess of income from that activity. *Scott W. Williams*, 123 AFTR 2d 2019-XXXX (CA 9).

Revenue Ruling Addresses Qualified Opportunity Zone Business Property: The taxpayer, a Qualified Opportunity Fund (QOF), purchased a factory located in a Qualified Opportunity Zone (QOZ) for $800x. $320x of the purchase price was attributable to the building, and $480x was attributable to land. Within 24 months, the taxpayer plans to invest an additional $400x to convert the factory into residential rental property. The IRS held that (1) the original use of both the building and the land didn't commence with the QOF; (2) a substantial improvement is measured by the QOF's additions to the adjusted basis of the building; and (3) the QOF isn't required to separately substantially improve the land on which the building is situated. Therefore, the IRS found that the QOF will substantially improve the building because during the 30-month period beginning after the acquisition date, the taxpayer's additions to the building's basis ($400x) will exceed its beginning basis ($320x). Rev. Rul. 2018-29.

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