

The Tax Route

financial information for the long haul

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McGowen, Hurst, Clark & Smith, P.C.





Solar Panels

Reducing taxes and energy expenses.

Solar panels are often thought of as unreliable, expensive eye sores. However, like the other technology in our lives, solar panels have evolved into dependable, efficient, and compact sources of energy. During a time when transportation companies often focus on equipment when seeking to reduce costs, an investment in solar panels may provide a significant reduction in energy expenses along with significant tax savings with the help of tax credits offered by both the Federal Government and the State of Iowa.

The Federal Government has promoted several energy saving incentives throughout the past century. These incentives were originally used to encourage commercial growth in the energy sector, however the focus has shifted during the last twenty-five years to instead promote the use of renewable resources for both personal and commercial usage. The tax credits that have been offered for renewable energy have varied in amount and length of duration throughout the past decade. In fact, at the end of 2016, one of the more popular energy credits, the investment credit related to energy property, was set to expire. However, the credit was extended last minute through the 2016 Consolidated Appropriations Act.

Specifically focusing on the installation of solar panels, the investment credit is 30% of the cost and installation of solar property that begins construction before December 31st, 2019. The credit then slowly phases out beginning with a reduction to 26% for any construction beginning after December 31st, 2019 but before January 1st, 2021. Construction beginning after December 31, 2020 and before January 1st, 2022 will be allowed a credit of 22% and construction after January 2, 2022 but not placed in service before January 1, 2024 will be allowed an energy credit of 10%.

Eligible solar energy property includes equipment that utilizes solar energy to create electricity, heat or cool structures, or illuminate the inside of a structure using fiber optics. The solar energy system cannot be a passive source of electricity or be used to heat swimming pools. The property must be used within the United States and by a United States entity. Tax exempt entities such as nonprofit organizations, government agencies, and schools are not eligible for the credit.

The investment credit can be significant due to the high cost of solar property. If the credit cannot be fully used within the year of installation, then the remaining amount can be carried back one year and forward twenty years. Another advantage is that this credit is one of the few tax credits that also offsets AMT, so there should not be any adverse AMT effects when taking the credit.

In addition to the tax credit, businesses can also take advantage of MACRS ((Modified Accelerated Cost Recovery System) depreciation. Solar property that does not also serve the function of a roof has a depreciable life of five years. Bonus depreciation, which is 50% of the eligible basis of the property for 2017, can be applied during the first year in service. One caveat is that the solar property's basis must be reduced by one half of the energy credit. For years when a 30% credit is applicable, the property's basis must be reduced by 15%. Therefore only 85% of the property can be depreciated. Section 179 is not available for solar panels or any other energy property.

Solar property purchased through debt financing qualifies for the federal credit. However, there are setbacks for closely held c-corporations and pass-through entities purchasing solar property using related-party



Client Spotlight: BTI Special Commodities

High quality service in the trucking and transportation industry.

A lot can happen in a month, a year or five years. Think of all the changes in the technology and transportation industries just within the last ten years. BTI Special Commodities has witnessed all of it and more in their journey as they approach their 30th anniversary in 2018.

Tom Trusty, along with two colleagues at the time, founded BTI Special Commodities in 1988. Each was involved in the trucking and transportation industry and decided to bring their experiences together. Since then, the company has seen a lot of changes in the world and industry, and it has also seen some changes within. Today, Tom is the sole owner of BTI and has built a solid repertoire of trucking and transportation expertise being in the industry for about 40 years. But one thing at BTI has always stood strong: their commitment to service. They developed a motto early on. "BTI strives to provide high quality equipment, to haul high quality freight, for high quality customers, and to provide high quality wages to high quality drivers." Quality continues to be in everything they do.

BTI has grown into a national outfit. From their sole office here in Des Moines, IA, they operate across the nation. A lot of their business is generated in the Midwest, but they are a 48-state carrier, coast to coast and border to border. It takes a strong team to make this happen. BTI has about 70 employees and 15 owner-operators. Ten of their employees are based at the office, about five are in their on-site maintenance shop and the rest are out on the roads. BTI hires high quality drivers, which is why their team has been so successful. They currently have one driver who has booked over 3 million miles with the company, along with 20 more who have over 1 million. These drivers are dedicated to BTI, the work they perform and safety on the roads.

Over the past decades, BTI has won awards from the Iowa Motor Truck Association for their commitment to and level of safety. They employ a safety director who has been with them nearly since their beginning 30 years ago, in addition to his 15 years of experience prior to BTI. He and the BTI team have developed a stringent set of guidelines for drivers to be employed by BTI, as they know that safety comes from hiring the most professional drivers. They regularly host educational meetings to keep drivers aware of the latest regulations and have adopted technology that enables them to safely communicate with any individual driver or group of drivers while on the road.

Finding top talent isn't easy, though, as young people are now more often being led to other career paths. And this is just one of the many challenges trucking and transportation companies are facing today. New regulations are constantly changing the way BTI and their industry partners must operate, using more of their time and money to adjust to and implement these changes. One of the biggest of these right now is the introduction of electronic logging devices in the trucks. Drivers have always logged their activity on the road manually, but as BTI Vice President Teri Netusil explained, having these new electronic systems connected to the truck's engine may not be in favor with many drivers, especially those who have been on the road for decades as many of BTI's drivers have been. It will take time for everyone to adjust to a new system - one that Teri believes many will feel is "big brother" watching them more closely.

This isn't stopping BTI from moving forward to continuing to innovate, though. Next month, they are adding 10 step decks to their fleet, allowing them to haul higher loads than the flatbed loads they currently haul. Many of the



Bad Debt Deduction

Don't let worthless debts bring you down.

If you are an accrual-based taxpayer and your customers don't pay their bills, Uncle Sam provides a last resort for business owners: You can deduct a bad business debt in the year it becomes worthless – if you've tried everything to collect.

In order to get the write-off, you have to prove that the debt will not be paid. If you're lucky, there is a significant event that demonstrates a debt's worthlessness, such as the debtor's death or declaration of bankruptcy. Otherwise, your company has the responsibility for proving the worthlessness of the debt.

The IRS often challenges the timing of bad debt deductions, so it's important to build a solid case. Here are a few tips:

Document all the efforts you make to collect amounts owed by a debtor, including records of telephone calls, dunning letters and email communication.

Be persistent. Don't just send one letter and let it go at that.

Pursue bad debts quickly to ascertain whether recovery is possible. That's because a bad debt deduction must generally be claimed on the tax return for the year it was sustained. You may not be able to take a loss in a later year.

Business or Personal?

Under the tax code, business bad debts are more advantageous than personal bad debts. In addition to claiming a full deduction for a business-related loan that goes bad:

1. You can write off the full amount against ordinary income (rather than as a short-term capital loss that may be limited to \$3,000 per year).
2. You can deduct a partial loss for a business bad debt. Personal debts can be deducted only if they are entirely worthless.

Bad debt bonus: The statute of limitations for bad debts is longer than the usual three-year time limit for most items on your tax return. In general, you can amend your tax return to claim a bad debt for seven years from the due date of the tax return for the year that the debt became worthless. For more information, talk with your tax advisor. ■

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Update: Excise Tax Refunds

Keeping you updated...

McGowen, Hurst, Clark & Smith continues to monitor the excise tax refund case mentioned in our March publication. On August 7, 2017, the U.S. District Court for the Northern District of Iowa dismissed this case under the grounds that the diesel regeneration unit is a taxable part or accessory under the Internal Revenue Code. The court did not address whether the units contributed toward the highway transportation function of the vehicle, which was the premise for the refund claims. Under current law, the case can still be appealed. We will keep you updated on the newest developments regarding this topic and will provide guidance on any refund opportunities once a resolution has been made. Please contact us if you have any questions.

Excise Tax Refunds (Reprinted from March edition of *The Tax Route*)

If you have recently purchased a truck, you may be entitled to an excise tax refund related to the mandated diesel regeneration units installed on the truck. It is argued that the equipment should not be subject to the federal excise tax since this equipment included with the truck does not contribute to the highway transportation function of the vehicle. As a result, some companies have started filing excise tax refund claims equal to the excise tax paid on the equipment included with the purchase of a truck.

The federal government has argued this stance and recently a company in Iowa sued the federal government regarding the refund claim. The trial is currently being held in the Iowa Northern District court and is expected to be resolved later in 2017.

Since the issue has become a hot button topic, the IRS issued Notice 2017-5 which provides interim guidance on the excise tax charged on heavy duty trucks, trailers, and tractors. The notice states that the federal excise tax is charged on the chassis and body of a vehicle. The chassis is defined as vehicle's frame, supporting structure, and all components attached to it, except those items that are explicitly exempt, such as certain idling reduction devices. The chassis components include:

- engine
- axles
- transmission
- drive train
- suspension
- exhaust after treatment system (including, but not limited to, a diesel particulate filter)
- cab

The body is the cargo or load carrying structure of a truck, trailer, or semitrailer. Examples of a body include, but are not limited to, a flatbed body, a tanker body, and a box body. ■



Entertainment Expenses

Have your cake and deduct it, too.

You can have a good time and still deduct part of the cost when you entertain business clients or customers.

The tax law generally permits you to deduct 50 percent of the cost of meals and entertainment that are either “directly related to” your business or “associated with” your business. For example, if you conduct business in your conference room while you serve lunch, the meal qualifies as entertainment that is directly related to your business. A more common situation is deducting entertainment that is associated with your business. To meet this tax test, you must hold a substantial and bona fide business discussion preceding or following the entertainment.

So, if you wrap up a business deal at 5 p.m. and then take the clients out to dinner, the cost is deductible within the allowable limits.

Keep in mind that you do not have to show that income or other business benefits actually resulted from an entertainment expense.

Here are few other guidelines:

Host a party at your house. You can deduct the cost of hosting customers or business associates at

your home before or after a business meeting. You can invite non-business guests as well, but you can only write off the expenses attributed to business guests.

For example, let’s say you entertain a group that includes yourself, four customers and six friends you know socially. Only 5/11 of the amount you spend qualifies as a deductible entertainment expense.

Bring spouses along. If your business guest brings a spouse, you can bring yours and the cost of entertaining the group is still deductible – provided the primary purpose of the meal is business-related.

Keep careful records. To substantiate your deductions, maintain records of the cost, time, description, business purpose and the business relationship of the people you entertain. In the event of an audit, the IRS takes a hard look at entertainment expenses to ensure they aren’t personal in nature, and good records are your best defense. ■

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Client Profile Continued...

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items BTI hauls, such as tires, steel, lumber and other raw products, violate standard dimension codes and require special exceptions. They are already versed in the world of over-dimensional loads, including varying regulations for such loads in each state, so this new step deck fleet will only strengthen this special offering.

Another service they continue to expand is their BTI Logistics unit. Ten years ago, BTI approached one of their employees about starting a logistics unit, and he agreed. Now, their logistics team makes

special arrangements for their clients that BTI cannot perform with their current fleet of trucks. Reasons for these arrangements can vary from too much freight to a different kind of shipment that requires a different type of truck. In some cases, they even make arrangements with competitors, but it’s all about providing high quality service to their clients and making them happy.

It’s all thanks to their commitment to quality that BTI will celebrate 30 years in 2018. To stay up to date with them and to learn more, visit their website at www.btisci.com. ■



Solar Panels Continued...

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debt or nonqualified nonrecourse debt, which is when the borrower is not personally liable to repay the loan and the lender relies only on the solar property as collateral. In these situations, the credit is not immediately available and can only be claimed in future years as the loan principal is repaid.

The State of Iowa offers the Solar Energy System Tax Credit, which is equal to 50% of the federal investment tax credit (15% for 2017) and is capped at \$20,000 per separate and distinct installation per year. Unlike the federal tax credit, the State of Iowa caps the total tax credit available to taxpayers, both individuals and businesses, at \$5 million. This credit is offered on a first-come, first serve basis. If the full \$5 million is awarded, any eligible taxpayers are put on a waiting list for the next year's allotted amount. Since Iowa does not couple with federal for bonus depreciation, the property is depreciated using 5.0-year MACRS. The state offers two other incentives for solar panels. No sales tax is levied on the purchase of the solar property and the solar property is exempt from being assessed as part of county property taxes for five years.

For businesses located in the Midwest, there is always the question of whether solar panels will work, especially during the winter months. Solar panels have greatly advanced in recent decades and are capable of offsetting 99% of a commercial property's electric bill. In addition, the panels have a life expectancy of thirty to forty years. Additional benefits may be provided by utility companies. First, some utility companies have started offering rebates to offset the costs of purchase and installation of renewable energy resources such as solar panels. Second, the State of Iowa allows for net metering, which allows utility companies to buy excess energy produced by privately owned renewable energy sources.

With the excellent tax benefits and cost savings, now is the time to consider solar panels. Please contact us if you are interested in how solar panels may specifically affect your business' bottom line. ■

State Tax Alerts

MISSISSIPPI. The state enacted a new law which allows the Department of Revenue to contract with third-party auditors on a contingent fee basis. MHC&S expects the state of Mississippi to be more aggressive towards taxpayers going forward. Companies with activity in Mississippi should watch for potential notices from the state of Mississippi.

OKLAHOMA. The Oklahoma Tax Commission (OTC) is offering a limited-time amnesty program running from September 1, 2017 through November 30, 2017, to encourage the filing and payment of delinquent taxes under which eligible participants, who voluntarily file and pay certain tax types, may be entitled to a waiver of the underlying penalty and

interest due. The OTC explains that this program is available to individuals and businesses that owe any eligible taxes for any tax period prior to September 1, 2017 (January 1, 2016 for income taxes).

VIRGINIA. The state of Virginia's tax amnesty program launched on September 13, 2017. The program will run through November 14, 2017. Under the program, qualifying taxpayers may receive a waiver of all penalties assessed or assessable and one-half of the interest assessed or assessable, resulting from nonpayment, underpayment, non-reporting, or underreporting of their tax liabilities. ■



Our Trucking Team



Dan Schwarz, CPA/ABV
Co-Managing Partner

Dan earned an Associate of Applied Science degree from Hawkeye Institute of Technology. In 1990, he joined McGowen, Hurst, Clark & Smith, P.C., and began work in the Business Advisory and Tax Services Division. Dan's area of expertise includes transportation, business valuation, family-held businesses and corporate finance. He has conducted presentations on valuation of closely-held business, business transition and corporate governance.

Dan is an Accredited Business Valuator (ABV). He is a member of the American Institute of Certified Public Accountants and the Iowa Society of Certified Public Accountants. He is a board member of the Iowa Motor Truck Association Allied Division.



Nick Finkenauer, CPA
Senior Manager

Nick graduated from University of Northern Iowa with a Bachelor of Arts degree in Accounting and joined McGowen, Hurst, Clark & Smith, P.C., in 2012. Prior to joining MHC&S in 2012, Nick worked for a Big 4 firm and specialized with closely held companies and state and local taxes. Nick's area of expertise includes corporate and individual taxation, multi-state tax issues and business consulting, providing clients with top quality service to help them reduce their tax liability and achieve their business and personal goals.

Nick is a member of the American Institute of Certified Public Accountants, CPAmerica International, and the Iowa Society of Certified Public Accountants, where he has served on the Taxation Committee. Nick is a past graduate of the West Des Moines Leadership Academy and IMTA Leadership Academy. Nick is also the treasurer of Morsel Combat, a non-profit organization that benefits Meals from the Heartland.



Ashley Sly, CPA
Supervisor

Ashley is a 2009 graduate of Buena Vista University with Bachelor of Arts degrees in both Accounting and Finance. Prior to joining McGowen, Hurst, Clark & Smith, P.C., in 2013, she had three years of experience at a national accounting firm and one year at a large law firm. Ashley is experienced in tax, providing expertise for small to mid-size businesses, especially those with a multi-state presence and in the industries of transportation, manufacturing and distribution.

Ashley is a member of the American Institute of Certified Public Accountants, CPAmerica International, and the Iowa Society of Certified Public Accountants, where she currently chairs the young professionals committee, LEAP.

In addition, Ashley is the current treasurer of the West Des Moines' Library Friends Foundation and a past graduate of the West Des Moines Leadership Academy. Outside of work, she enjoys spending time with her husband and young son.



About McGowen, Hurst, Clark & Smith, P.C.

With offices in West Des Moines and Winterset, McGowen, Hurst, Clark & Smith, P.C. is one of the oldest and largest local firms in Central Iowa. Founded in 1946, we celebrate over 70 years of providing our clients with accounting, auditing and business consulting expertise.

McGowen, Hurst, Clark & Smith is proud to be a member of CPAmerica International, an exclusive association of leading independent accounting firms. CPAmerica offers a wide pool of additional technical expertise to its member firms,

allowing us to offer you big firm opportunity with a small firm feel.

Mission: Providing outstanding, professional services while acting as proactive business partners with our clients. Providing a work environment that enables our firm members to achieve their personal and professional goals.

Values: Integrity. Excellence. Respect. Teamwork. Family. Fun.

In Trucking Territory this Quarter...

At the end of September, **Dan Schwarz, Nick Finkenauer, Ashley Sly** and **Liz Krause** attended the IMTA Annual Management Conference. They were at the golf outing, reception and conference. It was great to see some of you there!



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