Real Estate tax implications during COVID-19

The COVID-19 environment has created unprecedented economic times for real estate owners. The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) is aiming to combat some of the economic impact of the COVID-19 pandemic on businesses.

Immediate actions to take

**Carryback claims for net operating losses.** The CARES Act removes the 80% of taxable income limitation for net operating losses (NOLs) generated in 2018 through 2020, and also avails taxpayers a five-year NOL carryback for losses in 2018, 2019 and 2020. The added benefit being these NOLs have no “haircut” for claiming these losses against income being taxed at a 35% rate for pre-2018 tax years.

**Claim unused corporate alternative minimum tax (AMT) credits, which are immediately refundable.** Since the AMT was repealed in 2018, corporate taxpayers were able to ask for refunds of the AMT tax over a four-year period beginning in 2018. Now taxpayers can request the balance of these refunds on their 2019 tax returns.

**Review Qualified Improvement Property (QIP).** The long-awaited TCJA technical fix has finally come. The QIP recovery life was adjusted back to a 15-year period and made retroactive for 2018. The 15-year recovery period makes the property eligible for bonus depreciation. Taxpayers can either amend their previously filed tax returns for the adjustment or file a Form 3115 to receive the benefits of the change.

**Deduct previously disallowed Section 163j interest in 2019.** For partnerships, the CARES Act will increase the Adjusted Taxable Income Limitation in 2020, which decreases the amount of interest expense that will be limited. However, 50% of a partner’s 2019 excess business interest expense will not be limited and can be automatically deducted in 2020. Taxpayers should be aware of those amounts and quantify them on their 2019 K-1s.

**Revisit real property trade or business election.** Section 163(j)(7) allows electing real estate businesses to opt out of the interest expense limitation, but at the cost of some bonus depreciation. The QIP fix and ATI adjustment may change the decision-making that led to making (or not making) the election in a prior year. Taxpayers may, for a limited time, amend tax returns to make or revoke the election, with the benefit of hindsight.

Resiliency starts with a commitment to identify and mitigate risk factors that can further disrupt your business.
At the ready to help you

Our tax professionals are on standby to provide additional insights and assist you with a range of opportunities, including:

- Preparation of Form 1139 Corporate Application for Tentative Refund
- Prior year amended tax return preparation
- 2019 tax return preparation
- Preparation of Form 3115 Application for Change in Accounting Methods
- Cost Segregation Studies to identify QIP property and personal property for expensing option

Living our global values of collaboration, leadership, excellence, respect, responsibility and agility

Our approach is to provide practical, right-sized tax solutions to help companies in the ways that matter most.

You can count on us to:

- Bring a calm and deliberate approach to discussing key considerations
- Think holistically across all areas of tax
- Help you filter out the noise and create actionable plans
- Respond at the speed of your need

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