



CPAs & BUSINESS ADVISORS

SAVING LIVES AND DOLLARS: NEW TAX LAWS OFFER FINANCIAL INCENTIVES

Iowa HFMA and Hawkeye AAHAM Joint Spring Meeting

TODAY'S AGENDA

EMPLOYEE RETENTION CREDIT

ERC Overview

ERC Legislation & Building Blocks

ERC Qualification

PPP & ERC Interplay

Recap & Success Stories

THE CLIMATE ECONOMY

The \$1.2 Trillion Climate Economy

Energy Building Deduction

Residential Energy Credit

Clean Energy Investment Credit

Energy Incentive Program (EIP) Stacks



ERC OVERVIEW

TO DATE

COVID-19 Pandemic Relief

Retain staff in the midst of hardship

Incentive for organizations to keep employees during the pandemic

2020 ERC applications have a little over **1 year left** to submit to the IRS

2021 ERC applications have a little over **2 years left** to submit to the IRS

2020 application with 100 employees could receive as much as \$500,000

2021 applications with 100 employees could receive as much as \$2,100,000



ERC LEGISLATION & BUILDING BLOCKS

ERC AND LEGISLATION

Employee Retention Credit (ERC)

Part of the CARES Act in 2020 and extended and expanded (CAA and ARPA)

2020: Up to a \$5,000 credit per employee

2021: Up to a \$7,000 credit per employee per quarter for Q1-Q3 (\$21,000 per employee in 2021)

Infrastructure bill

Repeals the ERC for 2021 Q4

Recovery Start-up still available (Q3 & Q4 2021)

Inflation Reduction Act - \$80 Billion for IRS funding – expect audits

ERC OVERVIEW

	<u>2020</u>	<u>2021</u>
Time Period	March 13, 2020 to December 31, 2020	January 1, 2021 to September 30, 2021 (credit computed for each quarter)
Credit Rate	50%	70%
Qualified Wages	Can qualify up to \$10,000 per employee	Can qualify up to \$10,000 per employee
Maximum Credit per Employee	\$5,000	\$7,000
Eligible Small Employer (Controlled Group Rules Apply)	Less than or equal to 100 full-time employees	Less than or equal to 500 full-time employees

ERC OVERVIEW

	<u>2020</u>	<u>2021</u>
Eligibility Requirements: Decline in Gross Receipts (Controlled Group Rules Apply)	Gross receipts decline for greater than 50% in any quarter in 2020 vs 2019 (see example)	Gross receipts decline for greater than 20% in any quarter in 2021 vs 2019
Alternate Quarter Provision	Not applicable	Look back to the preceding quarter to meet qualification criteria
Gross Receipts Definition	For Profit Organizations - IRS Section 448(c) Not for Profit Organizations - IRS Section 6033	For Profit Organizations - IRS Section 448(c) Not for Profit Organizations - IRS Section 6033
Suspension of Operations	Operations that are either fully or partially suspended by a COVID-19 governmental order and only during the period the order is in force	Operations that are either fully or partially suspended by a COVID-19 governmental order and only during the period the order is in force
Governmental Instrumentalities Eligible	No	Public colleges, universities, organizations whose principal purpose is providing medical or hospital care, certain Federal instrumentalities like credit unions

QUALIFIED WAGES

Based on Social Security Wages (W-2, Box 3 wages) plus allocated share of health care expenses.

Companies with more than 100 (in 2020) or 500 (in 2021) employees can only claim credit for employees that are being paid but not providing services during eligibility period:

Based on 2019 average full-time employee count.

Aggregation rules apply.



HEALTH PLAN EXPENSES

Health plan expenses eligible for the ERC:

Cost paid by the employer.

Portion of cost paid by employee with pre-tax contributions.

IRS has indicated a pro rata allocation is reasonable for sponsored health plans:

Based on covered employees.

Based on periods of coverage.

Health plan costs paid for furloughed employees includable.



ERC – HOW TO CLAIM THE CREDIT

Report total qualified wages and health insurance costs on quarterly employment tax returns to claim credit





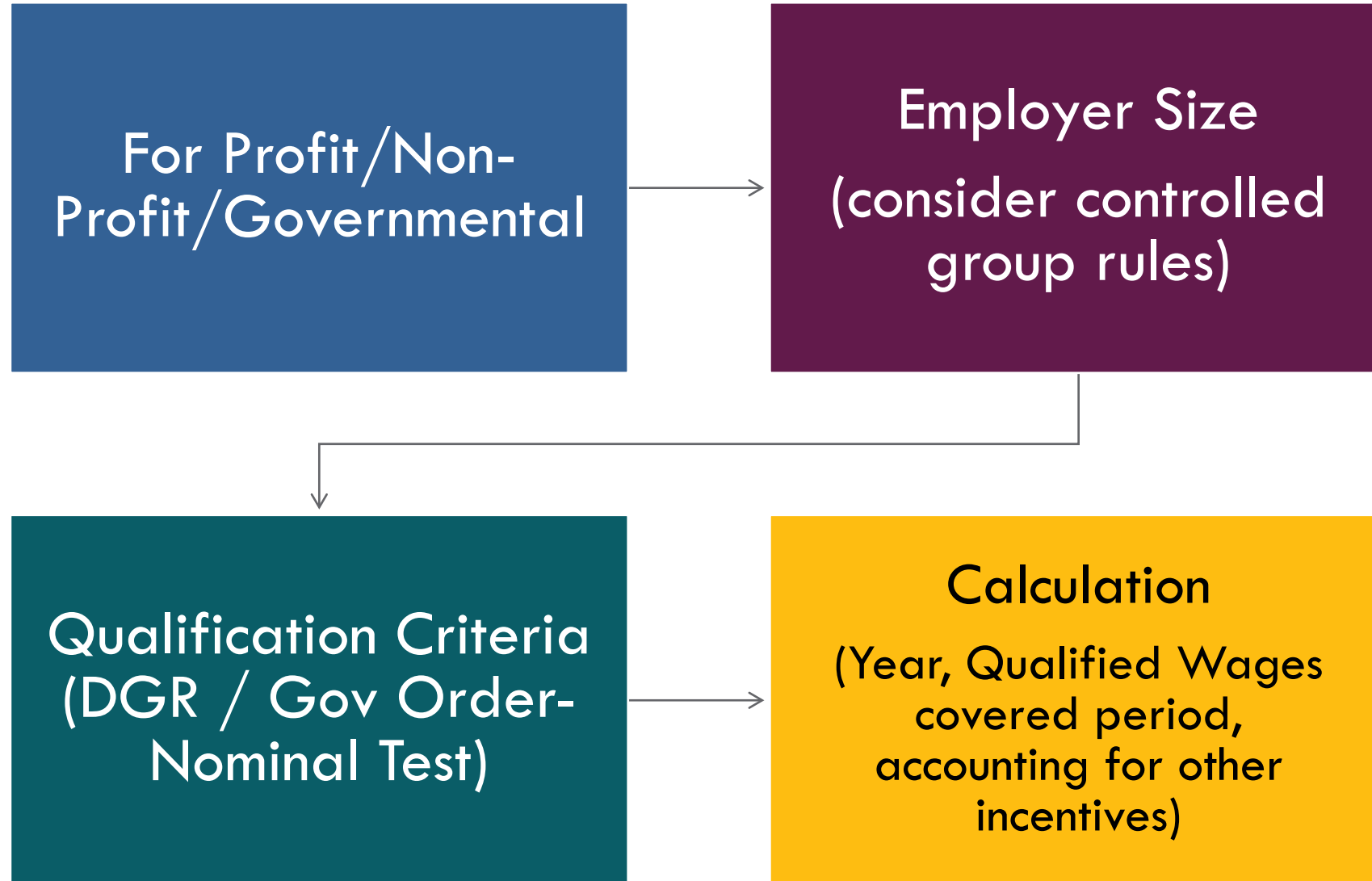
OTHER IMPORTANT CONSIDERATIONS

- No requirement to maintain certain level of employment or payroll levels.
- No overall dollar limit on amount of credit claimed.
- Limitations on claiming the ERC for an individual employer / owner hiring his or her family members.



ERC QUALIFICATION

CONCEPTUAL DECISION TREE



ELIGIBLE EMPLOYER – GROSS RECEIPTS TEST – 2020

Significant decline in gross receipts:

Gross receipts in any 2020 calendar quarter are less than 50% of the same 2019 calendar quarter.

Example:

	2019	2020		
	Gross Receipts	Gross Receipts		
Q1	\$10,000,000	\$9,000,000	90%	Not Eligible
Q2	\$12,000,000	\$5,000,000	42%	Eligible
Q3	\$11,000,000	\$9,000,000	82%	Eligible
Q4	\$10,000,000	\$7,000,000	70%	Not Eligible

Gross receipts definition

Very inclusive

Aggregation rules apply



ELIGIBLE EMPLOYER – GROSS RECEIPTS TEST – 2021

Qualification:

Gross receipts test - greater than 20% reduction vs same calendar quarter in 2019 (previously 50%):

Still comparing current quarter to 2019, not 2020.

Election to use alternative quarter:

For 2021, an employer can use its prior quarter to qualify with reduction in gross receipts (vs same quarter in 2019).

For employers not in existence in the same quarter in 2019:

Can use quarters in 2020.



ELIGIBLE EMPLOYER – SUSPENSION OF OPERATIONS

Applies to 2020 and 2021; can only claim credit during suspension period.

IRS Notice 2021-20 (and Notice 2021-23):

Government order:

“Essential Business” classification does not automatically disqualify employer from being partially or fully suspended

More than nominal test

Not partially suspended:

If a business can do all the same functions via “teleworking”

Customers required to stay home due to government order won’t constitute partial suspension of operations for the affected business

Supply chain





SUSPENSION OF OPERATIONS

- Elective procedures
- Visitation restrictions
- Occupancy constraints due to covid-19 surges
- Nominal needs to be:
 - Tied to a government order reducing the organization's operational capacity.
 - Nominal portion of revenue needs to be at least 10% of total organization-wide Gross Receipts.
 - Nominal effect of government order needs to reduce operational capacity by at least 10%.

PROVIDER RELIEF FUNDS (PRF)

- Generally recorded as revenue when earned and recognized.
- Some organizations did not record PRF funds as revenue in 2020 even though it was earned:
 - Qualifying COVID-19 expenses.
 - Qualifying lost revenues.
- PRF funds are included in gross receipts for ERC.
- There is little guidance on in which quarters should PRF funds be recorded for ERC.
- Ensure PRF funds are recorded in quarters the PRF funds are earned (sufficient expenses and/or lost revenues) and recognized (i.e. has been recorded as revenue on the financial statements).



SUBSTANTIATION REQUIREMENTS

What records should be maintained to substantiate the ERC?

Documentation for determining how eligible employer status was determined

- Gross receipts analysis
- Governmental orders relied upon
- How more than a nominal effect on operations was determined

Qualified wage computations

- For large employers, records showing workers being paid but not providing services
- Health plan expense computations
- Aggregated group analysis
- Tax forms claiming the credit

Maintain records for at least 5 years



PPP AND ERC INTERPLAY

PPP AND ERC INTERPLAY

PPP and ERC not exclusive, but wages giving rise to PPP loan forgiveness cannot also be used for ERC purposes.

For many borrowers, PPP covered period (usually 24 weeks) and ERC eligible quarters will overlap:

Taxpayers have latitude to apportion wages between PPP covered period and ERC quarters (just no double dipping).

Also, wage amounts that do count as eligible PPP expenditures (wages in excess of \$100k annually) may still count as ERC wages.





RECAP & SUCCESS STORIES

RECAP

Great opportunity for organizations to receive some much-needed cash flow

Qualifying Criteria:

Decline in Gross Receipts

Governmental Order having a Nominal Effect on a Nominal Portion of Business

Up to \$10,000 of Qualifying Wages:

50% Annual Credit 2020 = Up to \$5,000 per employee annually

70% Quarterly Credit for 2021 = Up to \$7,000 per employee quarterly

100 Employee provider organization Example:

Up to \$500,000 of ERC in 2020

Up to \$2,100,000 of ERC in 2021

Beware of ERC Mills / IRS Audits



SUCCESS STORIES

Pediatric Clinic – 130 Employees

- \$1,050,000 in credit

Nursing Home – 475 Employees

- \$6.6M in credit

THE CLIMATE ECONOMY

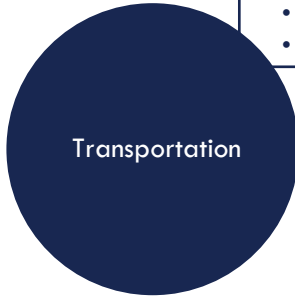
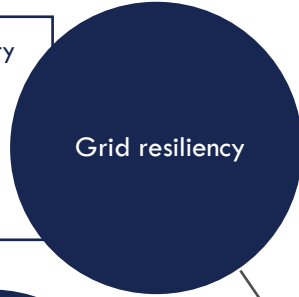
\$374 billion of energy incentives according to the Congressional Budget Office

\$1.2 trillion of energy incentives according to private reports

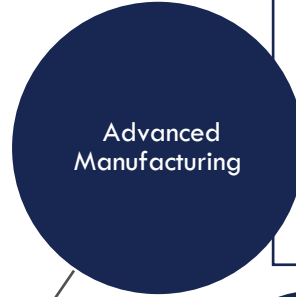


THE CLIMATE ECONOMY

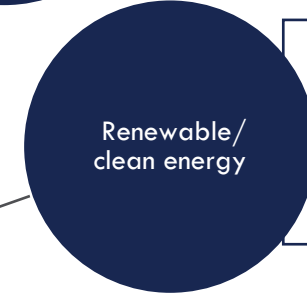
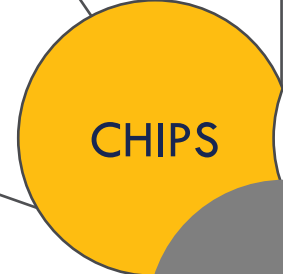
- Power Marketing Administration transmission borrowing authority
- Electric grid reliability and resilience research
- CHIPS for America Fund
- CHIPS for America Defense Fund
- CHIPS for America International Technology Security and Innovation Fund



- Formula funding
- Competitive grants
- eMobility
- Increased contract authority

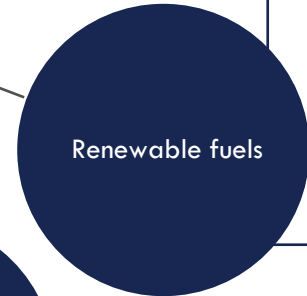
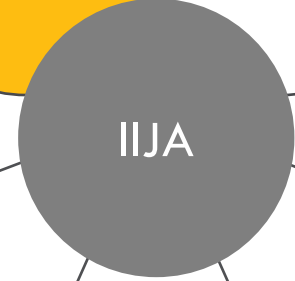


- 48C
- 45X
- Advanced Technology Vehicles Manufacturing Loan Program
- Domestic manufacturing conversion grants
- Advanced Industrial Facilities Deployment Program
- Advanced Manufacturing Investment Tax Credit
- Advanced energy manufacturing and recycling grants



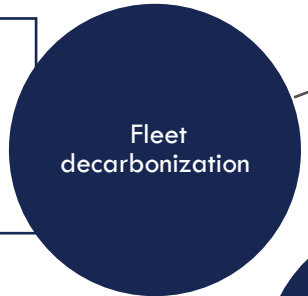
- 45 Clean Energy Production Tax Credit (PTC)
- 45U Zero Emission Nuclear Power PTC
- 45V Hydrogen PTC
- 45Y Technology neutral PTC
- 48 Clean Energy Investment Tax Credit (ITC)
- 48E Clean Electricity Investment Credit

- Energy Infrastructure Act of 2021
- Army Corps of Engineers infrastructure priorities

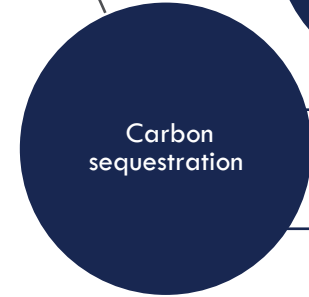


- 40A Biodiesel and Alternative Fuels Credit
- 40B Sustainable Aviation Fuel Credit
- 45Z Clean Fuel Production Credit
- Alternative Fuel and Low Emission Aviation Technology Program*
- Incentives for biodiesel, renewable diesel and alternative fuels*

- 30C Alternative Refueling Infrastructure
- 30D Clean Vehicle Credit
- 45W Qualified Clean Commercial Vehicles
- Clean Heavy-Duty Equipment and Vehicle Program
- Clean School Bus Program



- 45L New Energy Efficient Home Credit
- 179D Energy Efficiency Commercial Buildings



- 45Q Carbon Capture and Sequestration Credit
- Carbon removal
- Carbon storage validation and testing

CLIMATE ECONOMY

10 Years of **Materiality**

10 Years of **Certainty**



SECTION 179D ENERGY EFFICIENT DEDUCTION

Section 179D is available for HVAC, building envelope and lighting projects, up to \$5.00 deduction per square foot.



179D – CASE STUDY – TAX EXEMPT (POST IRA)



Non-Profit Hospital– Renovation:

- Building Highlights:
 - Lighting: combination of LED & high efficiency fluorescent fixtures
 - Heating: 90 AFUE Boiler
 - Cooling: 0.5 kW/ton IPLV Chiller

Results: The entire 250,000 SF building qualified for \$5/SF deduction.
\$1,250,000 deduction for the designer.



**SECTION 45L -
THE ENERGY EFFICIENT
HOME TAX CREDIT**



45L – OVERVIEW

- Tax Credit of \$500-5,000 per qualifying unit:
 - Senior Living
 - Apartment buildings/townhomes:
 - Three stories or less
 - Meet a level of energy efficiency that is higher than 2006 IECC standards



SKY IS THE LIMIT

§45L 3-story limit is gone in 2023

45L – CASE STUDY - MULTIFAMILY



Senior Living Townhome Complex – New Construction:

Complex Features:

- Insulation: R-8 slab
- Windows: U-Value: 0.50, SHGC: 0.27
- HVAC: Heat Pump HSPF 8.2 / 16 SEER
- Energy Star appliances
- LED lighting

Results: 100% of units passed & were leased - **\$112,000 in credits**



SECTION 48

CLEAN ENERGY INVESTMENT

TAX CREDIT

ENERGY INCENTIVE PROGRAM

Clean Energy Investment Tax Credit (Section 48)

Investment in equipment that produces energy from alternative sources:

- Solar
- Wind
- Geothermal (including ground source thermal energy)
- Fuel Cells
- Microturbines
- Combined heat and power systems
- Equipment that recovers waste energy
- Energy storage
- Biogas
- Microgrid controllers

Project “Economic Drivers”

- Basic credit = 6% of cost
- If wage rules met = 30% of cost
- If domestic content = + 10%
- If in a “energy community” + 10%
- Additional bonuses for solar and wind with an environmental justice allocation.

INCENTIVE STACKING

ABOUT

- Sr. Living
- New Construction
- 200,000 Square Feet
- LED Lighting
- Geothermal

INCENTIVE STACK

- Clean Energy Investment Credit
- 45L Credit
- 179D Deduction
- Utility Sales Tax Exemption

INCENTIVE AMOUNT

- \$400,000 energy credit
- \$250,000 45L credit
- \$1,000,000 179D deduction
- 4% elimination of sales tax on utilities

INCENTIVE STACKING

ABOUT

- Behavior Health Center
- Renovation
- 100,000 Square Feet
- Thermal Energy Storage
- LED Lighting

INCENTIVE STACK

- Clean Energy Investment Credit
- 179D Deduction

CREDITS

- \$300,000 energy credit
- \$500,000 deduction



QUESTIONS?

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THANK YOU!

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