

BEST PRACTICES AND CURRENT TAX SAVING STRATEGIES FOR MANUFACTURERS

KRD, Ltd.

Financial Reporting Best Practices

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Reporting Options

- Audit
- Review
- Compilation

Financial Reporting Best Practices

Accounting Methods

- GAAP – Generally Accepted Accounting Principles
- Other Comprehensive Basis of Accounting (OCBOA)
 - Income Tax Basis
 - Cash Basis

Financial Reporting Best Practices

Manufacturing Reporting Issues

- Revenue Recognition
- Inventory Valuation
- Property and Equipment
- Lease Accounting

2021 IL Tax Legislation Highlights

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- IL decoupled from Federal Bonus Depreciation for tax years ending on or after December 31, 2021.
- A cap on corporate net operating losses of \$100,000 annually for tax years ending on or after December 31, 2021 and prior to December 31, 2024.
- Canceled the IL corporate franchise tax phase-out but made the first \$1,000 exempt.
- Extended IL angel investment credit and certain other credits through at least the end of 2026.

2021 IL Tax Legislation Highlights

- Expanded the requirements for reporting for tax clearance certificates to include a sale of the majority of a stock of goods. Notification to ILDOR 10 days before a sale (currently after the sale provision).
- Sports wagering winnings are now allocable to IL.
- EDGE credit claw-back for terminating operations in IL.
- Extended, automatically by six months, the statute of limitations for credit or refund claims filed with less than six months left before expiration of the statute. This applies to assessing additional tax due as well.
- Reaffirmed tax rates and the extension of the IL Research and Development Credit through the end of 2026.

2021 IL Tax Legislation Highlights

Pass-Through Entity Tax

- SALT Cap workaround.
- IRS Notice 2020-75 confirms PTEs are permitted this deduction.
- Provides a fully deductible state income tax at the PTE level on income tax otherwise paid at the individual level. Must be paid by year-end to be deductible.
- Effective for tax years ending on or after December 31, 2021 through tax years beginning prior to January 1, 2026. Coincides with the sunset provisions of the TCJA.
- PTEs make an annual, irrevocable election on a timely filed return to pay the 4.95% individual income tax on Illinois source net income.

2021 IL Tax Legislation Highlights

Pass-Through Entity Tax

- Individual owners of PTEs will claim an IL refundable tax credit against the tax imposed for Illinois source net income.
- Resident PTE owners are allowed an IL credit for taxes paid to other states that have enacted substantially similar elective PTE taxes.
- Nonresident PTE owners may not be entitled to a state tax credit in their home states for the PTE tax paid to IL.
- Suspension of the withholding requirements for electing PTEs.
- Estimated tax payments are required for electing PTEs. The estimated payments include the replacement tax as well. Previously, none were required for withholding or RT.

2021 IL Tax Legislation Highlights

Pass-Through Entity Tax

- The election to pay the PTE tax is for all owners including tax-exempts. You cannot pick and choose.
- PTEs that have other PTEs as members can make this election. Such members should subtract the income of an underlying partnership that itself made a PTE.
- There is an addition modification required for a PTE member's distributive share of the PTE tax.
- If Congress removes the federal SALT cap, then this Illinois law is revoked.

Thank you for attending!

Questions?



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