

# REAL ESTATE BUSINESS PROVISION AND INITIATIVES INCLUDED IN BIPARTISAN COVID-19 AGREEMENT

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Congress introduced the Bipartisan economic relief package on December 20, 2020. This relief bill provides stimulus to individuals and businesses. As an industry impacted by the pandemic, real estate businesses can benefit from several key tax provisions in the package. We have outlined these opportunities below.

## **BUSINESS MEALS DEDUCTION**

Currently, the deductibility of business meals is limited to 50% of qualifying expenses. The bipartisan agreement allows a temporary increase of such deductions to 100% for two years for business meals provided by restaurants. This provision is applicable to expenses incurred from January 1, 2021 through December 31, 2022.

## **PPP LOAN INCOME EXCLUSION AND DEDUCTIBILITY OF EXPENSES**

The CARES Act launched the Paycheck Protection Program,

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which permitted businesses to take the PPP loan and apply for forgiveness under specific terms. However, guidance on how to account for business expenses used with the PPP loan was not provided. The new bipartisan agreement clarified that businesses may deduct expenses paid with the proceeds of a forgiven PPP loan.

## **KROST INSIGHT**

*Unfortunately, states are not required to conform to the federal treatment of PPP loans, which can have a substantial impact on taxable income. Business owners should watch out for this or speak to their CPA or accountant for more information.*

## **RESIDENTIAL ALTERNATIVE DEPRECIATION SYSTEM (ADS) RECOVERY PERIOD**

The Tax Cuts and Jobs Act (TCJA) allowed a real property trade or business to elect out of the limitation on the deduction for business interest expense. This election requires a change to the recovery period of the alternative depreciation system (ADS). TCJA reduced the ADS recovery period for residential rental property from 40 years to 30 years. However, due to oversight, the change only applies to buildings placed in service in 2018 or later. The bipartisan agreement now corrects it to 30 years for any residential rental property regardless of placed in service date.

## **NEW MARKETS TAX CREDIT**

The new markets tax credit was set to expire on December 31, 2020. The bipartisan agreement extends this credit for five more years. It is extended through December 31, 2025.

## **LOW-INCOME HOUSING TAX CREDIT (LIHTC)**

In recent years, the Low-Income Housing Tax Credit has fluctuated between 3.15% and 3.97%. This credit is used for the rehabilitation and renovation of affordable housing. The bipartisan agreement now makes a permanent 4% floor to encourage more affordable housing.

## **EMPOWERMENT ZONE**

The Empowerment Zone Tax Incentives were set to expire on December 31, 2020. The bipartisan agreement extends the current tax incentives for five more years. It is extended through December 31, 2025.

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