TRAILER INDUSTRY UPDATE

RSM Trailer Industry Trends and Insights Webcast

June 24, 2019
Today’s Presenters

Tim Koch
Partner - Assurance Services

Chris Bradford
Partner – Tax Services

Derek Zook
Manager - Assurance Services
Agenda

• State of the Industry
  - Information from
    • RSM US Chief Economist – Joe Brusuelas
    • RSM Survey of Trailer Manufacturers (70 respondents)
    • Leisure Equipment and Specialty Vehicle Group
    • Client and prospect discussion
    • The Real Economy – May and June 2019
    • Other key industry and economic data

• Tax Reform Update and Planning Concepts
STATE OF THE INDUSTRY

Presented by: Tim Koch
Big Picture

• 2018 saw continued economic improvement, but with significant headwinds
  - Marginal changes in revenue (before market share adjustments)
    • Increases in revenue per unit, decline in units sold
  - Significant margin compression due to materials and labor increases
  - How much longer…
    • Tariffs, materials and commodity pricing concerns?
    • Materials and commodity availability?
    • Lack of skilled/unskilled employees?
    • Rising labor costs?
    • Inflation?
Condition of Business

- **2019**: Thriving/Growing (60%), Holding Its Own (30%), Declining (10%)
- **2018**: Thriving/Growing (70%), Holding Its Own (30%)
- **2017**: Thriving/Growing (60%), Holding Its Own (40%), Declining (10%)
Big Picture - Growth Prospects for 2019

• RSM Middle Market Index – 132.3
  - Q1 2019 – 124.1
  - Q2 2018 – 134.5
  - 69 percent and 65 percent of MMI respondents expect increase in revenue and net income in Q3/Q4 2019

• 81 percent of NATM respondents expect profits to increase in the next 12 months

• Leisure Equipment and Specialty Vehicle Companies
  - Reporting decreased or breakeven revenue in current cycle
  - Optimism into 2020
Big Picture

• **Election Cycle**
  - US in political realignment in 2016 and 2020
  - Outcome tough to predict
  - Expect the unexpected

• **Society is very polarized**
  - Democratic party leaders openly identifying as socialists or putting forth a socialist agenda

• **Difficulty passing legislation**
  - Polarization
  - Election year
Big Picture

• In 2019
  - GDP – 3.0 to 3.5 percent annualized growth
    • Trending down
    • Uncertainty in tax and trade policies
    • Global headwinds
  - Increases in consumer spending slowing
    • Higher disposable incomes through wage increases and tax law changes
    • Continued spending on travel and luxury sectors
    • Changing demographics will continue to impact here
      • Boomers – Retiring and spending money on vacations and lifestyle components
      • Millennials – Highly mobile. Renters. Focusing on experiences, not possessions.
Big Picture

• In 2019…
  - Volatile equity markets
    • Dow Jones – 52W High – 26,952
    • Dow Jones – 52W Low – 21,713
  - Inflationary to remain at historic norms
  - Continued margin compression
  - Labor
    • Unemployment rate - 3.5 percent range nationally
    • Wages increases
    • Job growth slows
Big Picture

- Global economy
  - Minimal foreign sales in Trailer Industry
  - 2018 was challenging for existing foreign markets and even tougher in emerging foreign markets
  - Canadian economy stagnated
  - Chinese economy slowed
  - European Union declined
    - Brexit!!! Will it ever happen?
  - South America in serious trouble
Big Picture

• Oil and Gas
  - Expect volatility in 2019
  - Current Prices ~ $57 a barrel
  - Expect oil to remain between $50 to $70 a barrel for 2019
  - Unknowns
    • US refineries
    • Global tensions (Iran)

• Housing
  - Lack of affordability
  - Lack of supply (including lots)
Housing Affordability

Ratio of median home price to median household income, by metro area

NATIONAL LOW
Danville, Ill.
1.64

NATIONAL HIGH
Santa Cruz, Calif.
10.74
Big Picture

- **RSM predictions unchanged**
  - *Current cycle should continue into 2020/2021*
  - Duke University/CFO Global Business Outlook Poll – Probability of Recession
    - 48 percent of respondents by Q2 2020
    - 69 percent of respondents by beginning of 2021
  - Keep an eye on discretionary spend industries and inventory levels for signs of weakness
    - Softening has already begun
    - 1st quarter RV shipments down 27.1 percent over 2018
Revenue – Current Trends

• Dealers/customers still control buying cycle
  - Brand loyalty continues to lag behind other industries
  - End consumers buy predominantly on price
  - Trailers are considered a commodity
  - Current cycle has trained dealers and manufacturers
    • Discounting and dealer centric programs
    • Dealers wait for shows, end of month or year for large orders and deals
Revenue - Current Trends

• Lower end, less complex product continues to be in highest demand
  - Increase in disposable consumer income offset by rising prices

• Shifts in market share in 2018 results

• Revenue growth continued throughout 2018
  - 85% of NATM respondents reported revenue growth
  - On average, 5% to 10% growth (asymmetrical)
Revenue - Current Trends

• 95 percent of respondents increased sales prices in 2018
  - 22 percent of respondents raised prices 1 – 5 percent
  - 40 percent of respondents raised prices 6 – 10 percent
  - 33 percent of respondents raised prices greater than 10 percent

• Frequency of price adjustments in 2018
  - 21 percent of respondents raised prices 1 time
  - 41 percent of respondents raised prices 2 times
  - 32 percent of respondents raised prices 3 times
Revenue – Current Trends

• Dealer loyalty considerations
  - 93 percent of NATM respondents indicated that **product quality** is important to dealer loyalty
  - 35 percent of NATM respondents indicated that **brand name** is important to dealer loyalty
  - 57 percent of NATM respondents indicated that **product price** is important to dealer loyalty
  - Other responses
    • Short lead times
    • On time delivery
Revenue Growth for 2019/2020

• 2019/2020 Outlook
  - RV (Special 2020 Industry Forecast - Roadsigs)
    • 14 percent drop in 2019
    • 2.5 percent increase in 2020
  - Marine – 2.5 percent growth in 2019
  - Trailers per NATM respondents
    • 13% – No growth or declining sales
    • 13% - 1 to 5 percent growth
    • 16% – 6 to 10 percent growth
    • 22% - 11 to 15 percent growth
    • 36% – 16 plus percent growth
  - RSM expectation – 5% growth (industry wide)
Revenue Growth for 2019

• How to get there?
  - 70% of NATM respondents are greatly or somewhat relying on increased product offerings
  - 96% of NATM respondents are greatly or somewhat relying on increased sales to current customers
  - 96% of NATM respondents are greatly or somewhat relying on acquisition of new customers (100 percent in 2018)
Revenue Growth for 2018

- Other revenue observations
  - Increased opportunity for dealer floor plan arrangements
    - Percentage used by trailer manufacturers lags behind other industries
    - Dealer floor plan arrangements
      - Only 26% of NATM respondents have dealers that floorplan purchases at 61 to 100% of volume
  - Dealer programs
    - 15% of NATM respondents offer Interest Reimbursement
    - 38% of NATM respondents offer Volume Rebates
    - 73% of NATM respondents offer Discounts
## Cost Structure Considerations

<table>
<thead>
<tr>
<th></th>
<th>Decrease By More Than 10%</th>
<th>Decrease 1 to 10%</th>
<th>No Change</th>
<th>Increase 1 to 10%</th>
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<td>Raw Materials</td>
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<td>9%</td>
<td>13%</td>
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<td>Outbound Freight</td>
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<td>20%</td>
<td>72%</td>
<td>4%</td>
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<td>Cost of Debt</td>
<td>0%</td>
<td>11%</td>
<td>52%</td>
<td>33%</td>
<td>4%</td>
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<td>Wages</td>
<td>0%</td>
<td>4%</td>
<td>7%</td>
<td>80%</td>
<td>9%</td>
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<td>Income Taxes</td>
<td>0%</td>
<td>9%</td>
<td>72%</td>
<td>16%</td>
<td>3%</td>
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Raw Materials

- Inventory prices increase in 2018
  - 2\(^{nd}\) year of increases after prolonged stagnation

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<tr>
<th>Raw Material</th>
<th>No Change</th>
<th>Increase 1 to 5%</th>
<th>Increase 6 to 10%</th>
<th>Increase 11 to 20%</th>
<th>Increase Greater Than 20%</th>
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<tbody>
<tr>
<td>Aluminum</td>
<td>11%</td>
<td>14%</td>
<td>34%</td>
<td>27%</td>
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<td>Steel</td>
<td>4%</td>
<td>17%</td>
<td>29%</td>
<td>23%</td>
<td>27%</td>
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<td>Axels</td>
<td>4%</td>
<td>15%</td>
<td>33%</td>
<td>30%</td>
<td>18%</td>
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<td>Tires</td>
<td>4%</td>
<td>31%</td>
<td>37%</td>
<td>22%</td>
<td>6%</td>
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<tr>
<td>Wood Products</td>
<td>19%</td>
<td>40%</td>
<td>27%</td>
<td>6%</td>
<td>8%</td>
</tr>
</tbody>
</table>
Raw Materials – Aluminum and Steel

- Pricing
  - Commodity prices found a floor in 2017
  - Global plants taken off-line or production limited
- Tariffs and trade war
  - Significant impact on overall pricing… continue for 12 to 18 months
  - Election surprise?
- Expectations
  - Supply chain disruption and shortages
  - Continued price increases
Raw Materials

• 2018 inventory levels increased to offset rising prices/tariffs

• Inventory levels in 2019
  - 11 percent of respondents will decrease inventory by more than 20 percent
  - 36 percent of respondents will decrease inventory by less than 20 percent
  - 47 percent of respondents will increase inventory levels by up to 20 percent
  - 6 percent of respondents will increase inventory levels by more than 20 percent
Raw Materials

• Expectations
  - Continued consolidation in supplier base
  - Labor and materials constraints at supplier level will cause continued shortages at OEM level
  - Find alternative sources for key raw resources
  - Policy uncertainty will continue
    • Tariffs (or threats of tariffs)
    • United States, Mexico, Canada Agreement (USMCA)
Biggest import trading partner for US

Source: US Census Bureau
Biggest export trading partner for US

Source: US Census Bureau
Employee productivity remains at a high level
- 69 percent of NATM respondents reported increased productivity in 2018
- How long can the trend continue?

Labor market is very tight
- 3.6% unemployment in June 2019
- Asymmetrical – states range from 2.2% to 6.5%
- Most states with significant trailer production at or below national average

120 straight months of job growth (national)
Employee

- Human capital shortages continue
  - Labor participation rate
    - 62.8 percent in April 2019
    - Pre-recession rate was 66.4% (January 2007)
  - Unemployed workers to open positions
    - 0.86 in March 2019
    - 6.00 in July 2009
  - Licensed electricians and plumbers example
  - 65% of NATM respondents indicated that they were able to find skilled talent only some of the time or not at all
Employee

- Difficulties in availability in all facets of the labor pool
  - Employee availability will get worse before it gets better

- Relief is years away
  - Nationalist policies
  - Congressional inaction and political gamesmanship
  - Impact of millennials

- Wage pressures
  - Increased 4.2 percent in April 2019 (TTM)
  - Expected wage increases in 2019 and 2020
    - Historical annual average is 1.5%
    - Unskilled - Forecasted to be at 4.0% or higher by region
    - Skilled - Forecasted to be at 5.0% or higher by region

- Unemployment rate is forecasted to remain around 3.5% through middle of 2020
Employee - Hiring Levels in 2019

- Decrease by 1 to 9 Percent
- No Change
- Increase by 1 to 9 Percent
- Increase More Than 9 Percent

2016
2017
2019
Employee

• Manufacturers need a paradigm shift
  - Manufacturing is not glamorous, high tech
    • Focus on worker preferences
    • Focus on training

• Methods of attracting new employees
  - 98% of Monitor and NATM respondents are increasing compensation (base or incentive)
  - 49% of NATM respondents are focusing on quality of life matters
  - 27 percent of respondents have a shortage, but are not attracting new employees. Rather, they are using overtime to compensate for lack of quality employees
Other Matters

• Cost of debt
  - 72 percent of respondents have debt
  - Benign market conditions
    • Expect flat or lower interest rates in near term
    • Federal Reserve posturing (Powell)
  - Interest rates trending higher in late 2020/early 2021
Other Matters

- Information Technology – Risks and Rewards
  - Security breaches
    - 0 percent of respondents reported a data breach in the past 12 months
    - How are IT risks impacting manufacturers?
  - Capitalize on technology
    - ERP systems
    - Dealer portals and applications
    - Blockchain and buying groups
    - Social media
Other Matters

• Private Equity Group (PEG) Transactions
  - PEG feedback
    • Significant capital not deployed
    • Lack of overall quality deals
    • Large appetite for Company’s with $2.5 M of EBITDA or greater
  - RSM observations
    • Current economy still ripe for consolidation and acquisitions
    • Volume of transactions continues to increase
    • Size of transactions is stagnated
• NATM respondents offering health care
  - 58 percent offering fully insured benefits
  - 13 percent offering partially insured benefits
  - 21 percent are not offering insurance

• Portion of insurance covered by respondents
  - 25 percent cover 41 to 60 percent of premiums
  - 17 percent cover 61 to 80 percent of premiums
  - 19 percent cover 81 to 100 percent of premiums

• 80 percent of respondents expect premiums to increase in 2019
NAVIGATING YOUR BUSINESS IN A CHANGING TAX ENVIRONMENT

Finding your way in the new normal

June 21, 2019
HIGHLIGHTS FROM TAX REFORM

Impacts to Your Business
Big Picture Changes

- C Corp rate from 35 percent to 21 percent
  - Repeals alternative minimum tax (AMT)
- Top Individual Rate from 39.6% to 37%
- Enhanced Bonus Depreciation rules
- Qualified Business Income Deduction
- Interest expense limitations
- Business loss limitations
- NOL carrybacks
Changes to Depreciation Rules

• 100 percent bonus depreciation
  - Property purchased and placed in service from September 28, 2017 to December 31, 2022
  - 20% phase out scheduled starting in 2023 (phased out completely after 2026)
  - New and used property qualify

• $1 million permanent expensing under section 179
  - Phases out dollar for dollar over $2,500,000 in annual purchases
  - Added eligible category of Qualified Real Property
  - New and used property qualify

• Enhanced deduction caps for vehicles subject to limitations
  - $10,000 first year (previously $3,160); $16,000 second year (previously $5,100)
  - Additional $8,000 if bonus depreciation claimed

• Qualified Improvement Property currently not subject to Bonus Depreciation rules
Qualified business income deduction (Section 199A)

• Effective for tax years beginning after 12/31/2017 and before 1/1/2026
• 20% deduction of Qualified Business Income (QBI)
• Applies to operating income of active businesses
• Interest, dividends, capital gains are excluded from deduction calculation
• Qualified REIT, Cooperative and PTP income included
Who is eligible for the section 199A deduction?

- Individuals and trusts with qualifying income from:
  - Sole proprietorships (Schedule C)
  - Rental businesses (Schedule E)
  - Farming businesses (Schedule F)
  - S corporations
  - Partnerships (including PTPs)
  - Trusts and estates (K-1 income)
  - REITs (Real estate investment trusts)
  - Qualified cooperatives

- C corporations are NOT eligible for the deduction
Qualified business income deduction (Section 199A)

• Deduction limited to 20% of Qualified Business Income

• Additional limitations based on lesser of:
  – 50% of W-2 wages or,
  – 25% of W-2 wages and 2.5% of Unadjusted Basis of Qualified Property

• Wage/asset limits do not apply below specified income limits

• 20% QBI deduction only applies to income taxes (not S/E or NII tax calculations)

• Compensation/guaranteed payments carved out from QBI definition

• Aggregation of connected business entities is allowed
Important changes to interest limitations

• Caps net interest deduction at 30 percent of an amount based on “adjusted taxable income”:
  − Approximates EBITDA for four years, then limits the deduction to 30 percent of earnings before interest and taxes (EBIT)

• Taxpayers with average gross receipts of $25 million or less are excluded from the interest limitation

• Exclusion from interest limitation for floor plan interest

• Allows non-deductible interest expense deductions to carry forward indefinitely

• Applies to existing and new debt

• Various exceptions for real estate and farming operations

• COGS depreciation may not be part of EBITDA calculation
Interest limitation using EBITDA

Company worth $3 million
Debt of $2 million @5 percent
Equity of $1 million

**Earnings before interest and depreciation = $500,000**
Depreciation = $200,000
Interest = $100,000
Taxable income before limitation = $200,000

Base for limitation = $500,000

30 percent of base = $150,000
No limitation applies
Interest limitation using EBIT

Company worth $3 million
Debt of $2 million @5 percent
Equity of $1 million

Earnings before interest and depreciation = $500,000
Depreciation = $200,000
Interest = $100,000
Taxable income before limitation = $200,000

Base for limitation = $300,000

30 percent of base = $90,000
$10,000 interest is ‘limited’ - Carryforward allowed indefinitely
Other Positive Impacts

• Retains research and experimentation credit
  – Required amortization of expenditures incurred in tax years beginning after December 31, 2022

• Retains Work Opportunity Tax Credit
  – Allowed for hires made on or before December 31, 2019

• Small business tax provisions (under $25 million average gross receipts for prior 3 years):
  – Expanded use of cash method of accounting for small C corporations and partnerships with C corporation partners
  – Expands the uniform capitalization (UNICAP) small business exception
  – Expands percentage of completion method exception for certain construction contracts
  – Exempt from interest deductibility limitations
Other Negative Impacts

• No domestic manufacturer’s deduction after 2017 (9% deduction against qualified income)

• Changes to Net Operating Loss rules
  – No carryback of NOL’s generated in tax years ending after 12/31/17
  – NOL’s generated in tax years beginning after 12/31/17 limited to 80% of taxable income
  – Unlimited carryforward of NOL’s generated in tax years beginning after 12/31/17

• Like-kind exchanges under Section 1031 not allowed for personal property

• Limitations on deductibility of certain expenses:
  – Entertainment expenses no longer deductible (previously 50%)
  – Certain transportation fringes no longer deductible for companies
ENTITY CHOICE

How to think about entity type
Analyzing C corporation v. Flow-Through tax results

• C corporations
  – Flat 21% federal tax rate
  – No limitation to state income tax deductibility
  – Elimination of corporate AMT
  – “Double taxation” on shareholder dividends

• Flow-throughs
  – Top individual tax rate of 37%
  – 20% of income may be exempt under 199A
  – Significant cap on deductibility of state income taxes
  – Impact of NII or FICA taxes
<table>
<thead>
<tr>
<th>TCJA - Flow-through</th>
<th>Active Owners</th>
<th>Passive Owners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Individual Rate</td>
<td>37.00%</td>
<td>37.00%</td>
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<tr>
<td>Less: Flow-through income deduction (20%)</td>
<td>-7.40%</td>
<td>-7.40%</td>
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<tr>
<td>Net Investment Income tax</td>
<td>0.00%</td>
<td>3.80%</td>
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<td>State (IN) Taxes</td>
<td>5.23%</td>
<td>5.23%</td>
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<tr>
<td>Less: Federal benefit of state taxes</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Maximum Marginal Rate</td>
<td>34.83%</td>
<td>38.63%</td>
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## Tax rate analysis – C corporations

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<th>TCJA - C Corporation</th>
<th>Active Owners</th>
<th>Passive Owners</th>
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<tbody>
<tr>
<td>Federal Tax Rate</td>
<td>21.00%</td>
<td>21.00%</td>
</tr>
<tr>
<td>State (IN) Taxes</td>
<td>5.88%</td>
<td>5.88%</td>
</tr>
<tr>
<td>Less: Federal benefit of state taxes</td>
<td>-1.23%</td>
<td>-1.23%</td>
</tr>
<tr>
<td>Maximum Marginal Rate</td>
<td>25.64%</td>
<td>25.64%</td>
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<tr>
<td>Net Tax Rate &quot;Savings&quot;</td>
<td>9.19%</td>
<td>12.99%</td>
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## Tax Rate Breakeven – C Corp Dividends

<table>
<thead>
<tr>
<th>C Corp - Flow-through Break-even</th>
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<tr>
<td>Less: Federal benefit of state taxes</td>
<td>-1.23%</td>
<td>-1.23%</td>
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<tr>
<td><strong>Dividend % of Corporate profits</strong></td>
<td><strong>31.7%</strong></td>
<td><strong>44.7%</strong></td>
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<tr>
<td>Federal Tax on Dividends</td>
<td>7.54%</td>
<td>10.64%</td>
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<td>State Tax on Dividends</td>
<td>1.66%</td>
<td>2.34%</td>
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<tr>
<td>Maximum Marginal Rate</td>
<td>34.84%</td>
<td>38.62%</td>
</tr>
</tbody>
</table>
C Corp v. flow-through – Other considerations

- Future dividend/distribution expectations
- Future ownership considerations
- Accumulated earnings tax considerations
- Partnership conversion considerations
- Waiting period for S corporation “re-election”
- Exit strategy impacts
- Business valuation on sale
- Impact to any existing or planned estate/gift planning
- Future political/legislative changes
TAX PLANNING
Impacts to Your Business
Research & Experimentation Credits

- Permanently extended through Tax Reform
- Credit for activities intended to:
  - Create new products
  - Improve existing products (not cosmetically)
  - Improve processes
- Material, labor and contract costs qualify
- Must have a risk of failure to qualify
- Several different methodologies to calculate credit
- Tax rate reductions created enhanced credit
IC-DISC Export Tax Savings Opportunity

- Related Exporter pays a commission to IC-DISC for export sales
- Related Exporter obtains a deduction for commissions
- IC-DISC distributes cash back to Manufacturer/Exporter
- Tax code sets the commission at the greater of 50% of export sales net income or 4% of gross export sales, but the commission can never exceed 100% of export profits.
IC-DISC Export Tax Savings Opportunity

- Related Exporter pays a commission to IC-DISC for export sales
- Related Exporter obtains a deduction for commissions
- Tax code sets the commission at the greater of 50% of export sales net income or 4% of gross export sales, but the commission can never exceed 100% of export profits.
Other business tax planning opportunities

• Cost segregation studies – new construction, existing buildings purchased or renovations in current year or prior years

• Maximize depreciation deductions/Tangible Asset Regs

• LIFO election

• Review accounting methods
  – Deduction of prepaid expenses
  – Maximize deductions of accrued expenses
  – Deferral of advanced payments
  – Deferral of trade discounts

• Evaluate entity selection options
Estate/Gift Planning

• Current estate/gift tax exclusion is:
  - $11,400,000 per individual
  - $22,800,000 for a married couple

• Current exclusions scheduled to reset to lower limits after 2025

• Political changes to mark an early end to the increased estate/gift exclusions
OPPORTUNITY ZONES
A Hidden Gem
Opportunity Zone benefits

• Investors can defer tax on gains invested in a Qualified Opportunity Fund
  - 180 days to reinvest capital gains
  - Dollar for dollar gain deferral

• Deferred gain rules
  - Earlier of 12/31/2026 or QOF is sold/exchanged
  - If the QOF is held for >5 yrs, 10% of gain is tax-free
  - If the QOF is held for >7 yrs, 15% of gain is tax-free

• Investors can eliminate gain on QOF gains
  - If QOF is held for at least 10 years, gain on QOF investment becomes tax-free
Opportunity Zones

• 8,761 zones throughout the US
• Only capital gains qualify for deferral
• QOF rules still in flux and complicated
• Investment must occur within 180 days of the sale/exchange creating the gain
• Taxpayer makes Opportunity Zone gain deferral election on Form 8949 in year of initial deferral
• QOF must hold at least 90% of its assets in Opportunity Zone property (self-designating)
Opportunity Zones

• Resources
  - https://www.cims.cdfifund.gov/preparation/?config=config_nmtc.xml
  - https://rsmus.com/search.html?q=opportunity+zone&sort=
STATE TAX CONSIDERATIONS

States’ search for new revenue and job growth
Sales and use tax economic nexus

- In 2016, states begin to directly challenge the physical presence standard by enacting or promulgating so-called economic sales and use tax nexus laws
- These laws establish nexus for remote sellers with no physical presence when certain total sales or transaction thresholds are achieved
  - A ‘market presence’
South Dakota v. Wayfair – recap (cont.)

- **South Dakota v. Wayfair, Inc.**
  - Senate Bill 106 imposes a sales tax collection and remittance obligation on remote sellers without physical presence in South Dakota when gross revenue from sales of tangible personal property (TPP) or services exceeds:
    - $100,000, or
    - Sales occur in 200 or more separate transactions
  - South Dakota Supreme Court overturned the law under Quill
  - U.S. Supreme Court agreed to hear the case in January

- **On June 21, 2018, SCOTUS overrules Quill in a 5-4 decision**
  - “Flawed on its own terms”
  - Physical presence no longer required to establish sales and use tax (SUT) nexus
Who is impacted by Wayfair?

• The following businesses will be impacted:
  – Selling goods/property across state lines
  – Selling services across state lines
    • Including those ‘traditionally exempt’ services
  – Multistate or localized businesses making large quantities of purchases from remote vendors
What should businesses be thinking about?

• What are the correct tax rates?
• What is taxable (an item that’s exempt in one state may be taxable in another)?
• How often must a return be filed?
• Must I register with the state and when?
• Are local sales taxes also due?
• When will the first sales taxes be due?
• Do I need to expand my exemption certificate maintenance system?
• Do I need to update my tax software?
• Do I need to purchase a software solution and how much will this cost?
• What if I’m unable to prepare in time?
• How do I source sales for sales and use tax purposes?
States that have addressed an economic sales tax nexus enforcement date (June 1, 2019)

- Current economic SUT nexus
- Future economic SUT nexus
- Cookie nexus with economic standard
- No general sales tax
- No Wayfair-threshold enforcement date

*Massachusetts remote seller regulation in litigation in Virginia
**Louisiana have addressed remote seller nexus but have not established an enforcement date
Post-Wayfair to-do list

• Post-Wayfair to-do: Urgent – address immediately
  – **Understand current nexus footprint.** When was the last nexus analysis conducted? Consider voluntary disclosure agreements (VDA) and amnesties for significant noncompliance to catch-up with new nexus framework
  – **Understand your current activity.** Where do you currently sell products and services and into what states? Understand your sales and transactions thresholds – determine whether you can identify this information.
  – **Understand your products and services.** Items and services may be exempt from the sales tax in one state, and taxable in another. Understanding how those items are characterized is important for multistate sales tax compliance. Taxability is not universal among the states.
State Credits & Incentives

- **Transaction Driven**
  - Acquisition of new business operations
  - Spin-off of business operations

- **Company Driven**
  - Creation of new business operations
  - Expansion, realignment, consolidation or relocation of existing facilities
  - Maintenance of existing facilities

- **Typical Investments**
  - Construction/purchase/lease of new/expanded facilities
  - Purchase of new machinery/equipment
  - Infrastructure improvements
  - Hiring/retention of new/existing employees
  - Training of new/existing employees
QUESTIONS AND ANSWERS?
THANK YOU FOR YOUR TIME AND ATTENTION