THE MFA COMPANIES®

Strategic Tax Advisory

Amidst economic uncertainty, boosting liquidity is crucial.

While the full impact of the current global pandemic has yet to be seen, it is clear that companies of all sizes are contending with an economic challenge unlike any the United States has seen in generations.

For many, this means seeking much-needed capital to stabilize, maintain and/or continue operations for an undetermined period of time. It is critical that organizations act quickly to identify short-term measures to increase liquidity.

We recognize the immense challenges you face and appreciate the critically urgent need for one of the most important assets at this time — CASH. That's why the team of Business & Tax Strategists at The MFA Companies® stands ready to assist your business in ensuring you are maximizing all available tax benefits. There are real opportunities to boost your liquidity via strategies inherent in elements of the current tax code as well as the CARES Act.

Now, more than ever, businesses should be looking to MFA to review their recent tax returns to reveal and maximize available capital, particularly in the form of taxes that could otherwise be deferred or recouped from the United States Treasury. By way of example, the following pages provide several examples illustrating the impact of seeking strategic guidance to ensure maximization of all available tax benefits.

The time to act is NOW.

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EXAMPLE 1

Change in Accounting Method

The method in which businesses account for revenues can make a difference in when they are required to pay taxes on those revenues. Businesses, in particular those whose revenues are membership based, should evaluate the relative merits of a change in accounting method including the ability to defer revenue and provide a potentially substantial tax benefit in the same year the change is made.

THE SITUATION

- Business is a flow-thru entity.
- Business receives $2 million in monthly membership revenues received on the last day of each month for the next month's membership.
- Net income after expenses is $4 million.

	2020 Taxable Income	2020 Tax Due
Method A	$4,000,000	$1,600,000
Method B	$2,000,000	$800,000
	Shelter / Recoupment Amount	**$860,000**

THE IMPACT

- By shifting its accounting methodologies, the business can create upwards of $2 million in tax deductions which would result in anticipated federal and state income tax shelter / recoupment of approximately $860,000 for 2020 (assuming 37% federal and 6% average state tax rates).

EXAMPLE 2

Qualified Improvement Property (QIP) Deduction

A fix to a technical glitch in the Tax Cuts and Jobs Act of 2017 can greatly benefit businesses who have opened or renovated a new or existing location(s) after January 1, 2018. Property can now be depreciated over 15 years and is eligible for 100% depreciation in order to take an immediate deduction for property improvements.

THE SITUATION

- Business is a flow-thru entity.
- Business had $3.9 million of leasehold improvements in 2018; $100,000 of depreciation was taken in 2018.
- Since the assets were placed in service in 2018, the qualified improvement property ("QIP") deduction could be applied in 2018 or 2019.

	Taxable Income	QBI Limitation	Deduction @ Ordinary Tax Rate	Deduction @ QBI Tax Rate	Tax Refund
2018 Tax Year	$5,800,000	$2,000,000	$3,800,000	-	$1,406,000
2019 Tax Year	$5,800,000	$3,000,000	$2,800,000	$1,000,000	$1,332,000
				Increased Tax Refund	**$74,000**

THE IMPACT

- The 2017 Tax Cuts and Jobs Act reduced marginal tax rates for most businesses AND introduced the Qualified Business Income ("QBI") deduction.
- Applying the $3.8 million QIP deduction in the 2020 tax year fails to maximize the tax refund due to the increased QBI limitation.
- Business should first consider their QBI limitation in each tax year, as applying the rules strategically could result in up to a 7.4% difference in the tax refund.

EXAMPLE 3

Net Operating Loss Carrybacks

Per the CARES Act, net operating losses (NOL) incurred after Dec. 31, 2017 and before Jan. 1, 2021 now have a five-year carryback provision. In addition, fiscal year 2017 returns (i.e., returns that began before January 1, 2018, and ended after December 31, 2017) can now be carried back two years as a result of the technical correction to the effective date language in the TCJA (which originally applied the prohibition on carrybacks to taxable years ending after December 31, 2017).

THE SITUATION

- Business is a flow-thru entity and had 2017 taxable income of $1.9 million.
- Business had $3.9 million of leasehold improvements in 2018; $100,000 of depreciation was taken in 2018.
- Since the assets were placed in service in 2018, the qualified improvement property ("QIP") deduction could be applied in 2018 or 2019.

	Taxable Income	NOL Carryback	Prior Year Effective Tax Rate	Tax Refund
2018 Tax Year	$2,000,000	$1,800,000	39.6%	$1,304,800
2019 Tax Year	$2,000,000	$1,800,000	29.6%	$1,124,800
			Increased Tax Refund	**$180,000**

THE IMPACT

- The 2017 Tax Cuts and Jobs Act reduced marginal tax rates for most businesses.
- The $3.8 million QIP deduction exceeds both 2018 and 2019 taxable income, thus creating a net operating loss available for application to prior year taxable income.
- Business should first consider their income in each tax year, as applying the rules strategically could allow for offsetting income previously taxed at higher rates, resulting in up to a 10.0% difference in the tax refund.

EXAMPLE 4

Employee Retention Tax Credit

The employee retention tax credit is a refundable credit against an employer's payroll tax liability. Its intent is to encourage employers to keep employees on their payroll. The credit is 50% of up to $10,000 in wages paid by an employer whose business is fully or partially suspended because of COVID-19 or whose business has had a significant decline in gross receipts compared to 2019.

THE SITUATION

- Business had an average of 140 employees in 2019 (56 "full-time").
- Business' operations are deemed non-essential services and thus are fully or partially suspended due to orders from a governmental entity.
- Business has retained 50% of its workforce (70 people).
- Business has NOT received a loan under the SBA Paycheck Protection Program.

Percent Employees Retained in Q2 2020	Estimated Q2 2020 Qualified Wages	Estimated Q2 2020 Employee Retention Tax Credit	Estimated CY 2020 Employee Retention Tax Credit
50%	$375,900	$187,950	$350,000

THE IMPACT

- Business can be immediately reimbursed for the Q2 credit of $187,950 by reducing the amount of payroll taxes they are required to deposit with the U.S. Treasury. If credit exceeds the amount of payroll taxes to be remitted, businesses can apply for a direct refund from the IRS.

The MFA Process

The process underlying MFA's Strategic Tax Advisory Services focuses on capital preservation and/or recoupment of monies at the United States Treasury in order to boost your business' liquidity. We take a diligent and thoughtful approach to applying sophisticated tax reform strategies in the most optimal way in order to capitalize your company with additional liquidity via federal and state income tax strategies and filings.

Review Most Recent Tax Returns

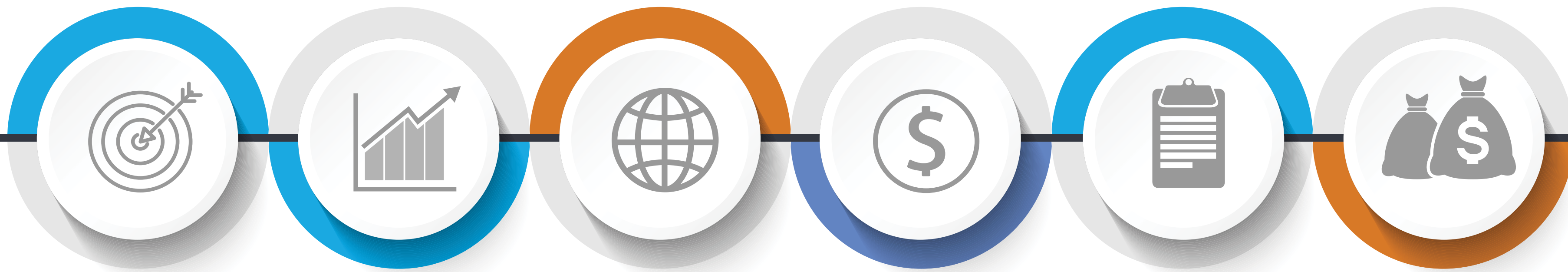
Assess Applicability of Current Tax Code Strategies

Assess Applicability of CARES Act Tax Strategies

Quantify Savings

Gather/Assemble Supporting Documentation

Repatriate Dollars from U.S. Treasury



The Time to Act is Now!

The examples contained herein represent just a few of the many strategies inherent in the tax code and the CARES Act.

Contact MFA today for assistance in maximizing all available tax benefits to boost your company's liquidity in the near term.

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