Making Sense of Tax Changes

Opportunities, pitfalls abound in 2024 tax and accounting standards landscape

Lubricants manufacturers face an array of changes to tax and accounting standards now that the calendar has turned to 2024. Many of the tax-related shifts result not from new legislation, but rather the slow-motion timetable under which provisions of the Tax Cuts and Jobs Act of 2017 are beginning to expire.

When it comes to tax and accounting standards, the 2023 National Manufacturing Survey report from the Consumer and Industrial Products Group of financial firm Marcum contains a few insights into the mindsets of manufacturing companies more generally.

Among the findings is that 57% of manufacturer respondents plan to take advantage of depreciation and/or cost segregation in the coming year, while 55% plan to avail themselves of R&D tax credits. In addition, in spite of tax reductions teeing up as a key priority, 20% of companies say they're not taking advantage of any tax credits at the moment.

Michael Sacco, partner and national consumer and industrial products leader for Marcum, wrote in the report's closing remarks that companies should continue investing in growth. "That may be as simple as exploring new technologies, reassessing operations and accounting practices, or optimizing your tax positions, all of which are simple steps that could reap huge benefits into the future," he said.

The 20% of companies that are not taking advantage of tax credits are leaving money on the table, said Jonathan Shoop, Marcum's managing partner in the Cleveland office

By Ed Finkel

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Jonathan Shoop, Managing Partner and Midwest Consumer and Industrial Products Leader, Marcum

and Midwest consumer and industrial products leader. One such example is through the Work Opportunity Tax Credit, which the IRS has extended into 2025.

"Realistically, you just don't know what you don't know," he said. "You don't know there is a Work Opportunity Tax Credit because your adviser hasn't talked to you about it, or you haven't shared your strategic direction with your adviser. That 20% is a sizable portion."

Shoop said that underscores what his firm and probably others have been telling clients: "Look to tax credits as part of your [return on investment] consideration. As you are expanding and investing, see where there are economic development and tax credit incentives. You don't get there on your own with a Google search."

That targeted search process should include state and local tax considerations as well, which companies are even more likely to miss, Shoop said. "Any [accounting] firm worth their salt has a pretty darn good SALT — state and local tax — practice," he said. "But state-level credits are oftentimes missed. Why is that? You don't know what you don't know." (See sidebar on page 27.)

Tax Changes in 2024

Among the key changes underway in 2024 (and going forward) as a result of the Tax Cuts and Jobs Act's changing provisions is the phasing out of the 100% bonus depreciation on assets placed in service between September 2017 (after the act passed) and Jan. 1, 2023. That is ramping down 20% per year until 2027, starting with 2023 assets placed in service getting 80% bonus depreciation, said Tyler Ryan, corporate controller at Golden Valley, Minnesota-based Lube-Tech.

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Tyler Ryan, Corporate Controller, Lube-Tech

"Provisions are going to expire because [Congress] had to pay for it," he explained. "Things are going to start sunsetting in 2023 and going forward. That's how [Congressional Budget Office] scoring works."

Ryan added that he's hopeful Congress will reconsider the stepped-down schedule and that companies should talk to their tax professionals about the potential to still be able to take first-year depreciations for certain assets under Section 179 of the Internal Revenue Code.

Shoop said the 100% depreciation provision has been extremely helpful for those making capital investments in machinery or equipment. "I can take all of that deduction for taxes in the current year. Wow, that's great," he said. "I'm going to finance something over five years, buy a $500,000 machine and get a $500,000 deduction this year."

The change flips a company's tax-planning incentive on its head, Shoop noted. "If I buy this piece of equipment, I can still get the bang for the buck today," he said. "Next year I'll be buying something, too, but now the tax benefit associated with the timing of the purchase of machinery [drops 20%]. That's something to be mindful of: If people are planning capital improvements, do it now."

The Tax Cuts and Jobs Act also contained a provision that came online in 2022 stipulating that R&D expenses had to be amortized over a five-year period — instead of being expensed in the year they occurred — and required additional documentation to support eligibility for claiming the credit, Ryan said.

"If a taxpayer generates $1 million in R&D credits today … that is now capitalized and amortized over five years," he said. "The taxpayer can only take $200,000 [in credits] in the first year … at first, there will be a spike in your tax bill as a result of that" change.

Shoop said that some companies had hoped Congress would "patch" that sudden bump in the road in 2022 but that as of late 2023, such a patch hadn't been enacted. Given that the "penalty" expires at the end of 2025, along with many other provisions of the act, Shoop figures that the more time that goes by, the less likely Congress is to take action. "The impact has been painful to catastrophic," he said, adding that some companies "don't have the cash to pay the tax bill."

The rationale for the switch is that with the base corporate rate lowered from 35% to 21%, there needed to be "give-backs" to help make up the difference, Shoop said. "It flies in the face of the theory that we want research and experimentation here in America, to create jobs here in America, to invest in technology here in America," he said. "Why would we want to do anything that's going to stifle research and development? That's one that is a big-time 'ouch.'"

A final change due to the Tax Cuts & Jobs Act that Shoop mentioned, which will not expire in 2025, is that the federal government's definition of "small business" was changed to be any firm with up to $25 million in gross receipts. Such companies can elect to be "cash-basis" taxpayers, enabling them to pay taxes when cash is collected rather than when revenue is accrued.

"You're essentially postponing your ultimate tax day; you're pushing it out," he said. "I will pay the tax, but if I continue to generate profitability, I'm a little bit ahead. You're paying tax only on dollars in, not on shipments out."

Key Accounting Standards Changes

Ryan cited a number of key accounting standards updates, most of which kicked in for fiscal years beginning on Dec. 15, 2023, per the Financial Accounting Standards Board. These include ASC 2023-05 for *Business Combinations – Joint Venture Formations*, which transforms the guidance on joint venture formations.

Given differing practices in measuring assets contributed to the joint venture, the provision holds that there may be goodwill to ensure that the total assets equal the fair value of equity upon the joint venture's formation, Ryan said. "If I'm contributing customer lists or something, what's the value of those lists?" he said. "Things should be contributed at fair value."

Another update, ASC 2023-21 for *Leases (Topic 842): Common Control Agreements*, holds that when property

Smattering of State-Level Changes

Tyler Ryan, corporate controller at Lube-Tech, shared a number of pending or recent changes to tax structure at the state level. These include the following:

Corporate Income Tax Cuts

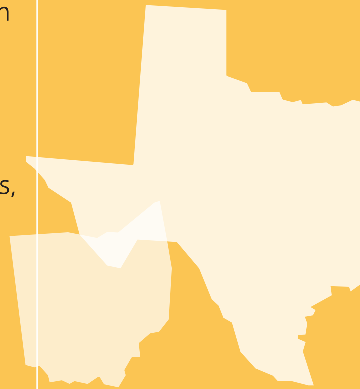
Top rates have been cut from 5.1% to 4.8% in Arkansas, from 8.4% to 7.1% in Iowa, and from 4% to 3.5% in Kansas, all as of this year.

Ohio Commercial Activity Tax

The exclusion on this, a flat tax on revenue that a company sells into the state, has been raised from $2 million to $3 million this year — and will hit $6 million in 2025. Even below these thresholds, however, quarterly filings may still be required, and a return will be required in any case.

Texas Franchise Tax

The exemption on this has been boosted from $1 million to $2.47 million this year.



leases that are between private entities are under common control, leasehold improvements can be amortized over a longer period than the contractually stated term in the lease.

"Let's say I'm a small business, and my owner leases me my space — they own the leasing company and the lessee," Ryan said. "If I do a leasehold improvement, accounting standards would say that … if I install an A/C unit with six months [left in the lease], technically I should depreciate the whole thing over six months. The change says that you don't have to look at the lease terms if you're under common control — you can assume you're going to do it over a longer life."

Lastly, Ryan cited ASC 2016-13, for *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which took effect on Jan. 1 this year. It required that the Current Expected Credit Loss model be used to measure all financial instruments such as accounts receivable (AR), notes receivable, loans and lessor agreements.

"Historical experience is now required to be an element of measurement of the current expectation of losses," he said. "While potentially easier for companies with long histories of AR, the challenge can come when selling to a new market or segment of customers. What information should be used? And how will auditors interpret [it]?"

Ryan added that this "will be interesting if you sell to a new customer or acquire a business. How are you going to estimate what credit losses will be when you don't have a history in that line of business?" A company can try to analogize the potential losses to its current business or can research general results related to its particular industry, he said.

Usually, companies assess collectability of credit when a receivable is aging, in terms of thinking about when they call to make collection efforts, Shoop said. "I'm saying, 'Pay me after Day 30 or Day 60 has gone by,'" he said. "What the accounting gods have presented is, there is collection risk in that credit sale, on the day the sale is made. There needs to be some amount of assessment by companies that says, 'Each time you make a credit sale, you need to undergo some sort of analysis that says there is a collection risk somewhat greater than zero for every sale I make.'"

Shoop added that he's not too sure how applicable this change will be to lubricant companies. "For the most part, they sell on credit and get paid," he said. "We're telling clients to monitor the collection risk of credit sales from the day of the sale until they get collected, rather than waiting until they get stale. It's more about an internal change of process rather than an impactful change in financial reporting."

But with all of these various changes afoot, Shoop concluded, "Shameless plug here: Talk to your adviser. There's a lot going on here. It's impactful, and mostly created through the Tax Cuts and Jobs Act. Individually, some of these things don't make sense. Why stifle growth and experimentation?"

Finkel *is a freelance writer based in Evanston, Illinois.*