CPA Practice Advisor

Clients

Tax planning has become increasingly popular in recent years. More and more tax and accounting firms are realizing that their clients can save significant amounts of money by proactively implementing a variety of tax planning strategies.

May. 04, 2022

Tax planning has become increasingly popular in recent years. More and more tax and accounting firms are realizing that their clients can save significant amounts of money by proactively implementing a variety of tax planning strategies. By helping their clients save money through tax planning, these firms can greatly increase their earning potential as well.

While there is an industry-wide push from compliance to advisory roles – including

Cannabis Tax Rules Differs by State

Many states have now legalized cannabis use, while others haven't. Internal Revenue Code Section 280E prohibits businesses selling cannabis from deducting any expenses incurred in producing, advertising, distributing and selling those products as "ordinary and necessary business expenses" that reduce gross income. Cost of goods, however, may be deducted as these are not considered business deductions. Interestingly, a company could take a federal deduction for the cost of the cannabis itself but not for its rent, salaries, utilities, and other expenses.

What happens when a state doesn't conform to this federal law?

Some states have "decoupled" from Section 280E, meaning they specifically do not conform to that section. Other states, however, still conform to it despite having legalized cannabis. Clients interested in investing in or opening cannabis companies may be able to deduct costs of rents, salaries, employee benefits, and advertising on the state level even while being barred from taking them on the federal level. What this shows is that if tax professionals engage in tax planning with state taxes in mind, they could end up saving their client more money. With cannabis sales increasing, this is just one example where going beyond federal tax planning could be beneficial.

Let's Talk about Deductibility

The Tax Cuts and Jobs Act created a $10,000 cap on the state and local tax deduction for individual federal returns, leading to some states finding creative ways to bypass the federal deductibility limit. Several states allow pass-through business owners to sidestep the limit on state and local tax deductions by making tax payments on the entity level. The lack of consistency across states can be confusing for tax

significant savings by taking any opportunities to bypass the federal limit on deductibility. This can offer federal and state tax planning benefits.

Nexus Matters

With an ever-increasing mobile workforce, many businesses may be impacted by nexus. Nexus means that a company has established a non-tenuous business connection, leading to the state being able to impose sales and/or income tax on the company. No matter how you look at it, remote work impacts nexus—which many companies don't realize. Essentially, remote workers operating in a separate state from where the company is located could create nexus and make a business owe taxes in the states where their employees live and work.

Nexus is defined by each state, meaning state governments decide what employee activities will trigger a tax obligation. Many states issued temporary guidance during 2020 and 2021 that prevented workers who were remote because of the pandemic from creating nexus. However, as interim guidance expires, many employers may be surprised to find they have tax obligations in different states.

There are two types of nexuses: income tax and sales tax. Imagine a business in Arlington that had been collecting and remitting Virginia sales tax. The company switches to remote work in 2020 and a local employee begins operating full-time at his home office in Pennsylvania. For sales tax purposes, nexus has been established simply by having that employee in that state. For income tax purposes, if the employee's activity goes further than sales activity in Pennsylvania, the company may also be subject to income tax in the state.

Most states use apportionment formulas to determine taxes owed. This means a company has to determine precisely what revenue an employee generates in a given territory. As remote work becomes more common, more companies may have to determine how to apportion their income and have filing requirements in more

deductibility, or taking into account nexus, there are significant opportunities to help clients save even more money with a comprehensive tax plan that takes into account SALT planning.

===========

Robert (Bob) Bennett is the Vice President of Tax and Legislation at Corvee, a software and solutions company serving tax and accounting firms. At Corvee, Bennett works as part of the team that develops and maintains the Corvee Tax Planning software.