


2024 National Income Tax Workbook

Chapter 7: Business Tax Issues
PP 225 - 263



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Chapter Topics P. 225

Chapter 7 split into 2 sessions:

Bill


- Issue 4: Employer Provided Child Care Credit
- Issue 5: Deduction for employer provided meals & enter.
- Issue 7: Qualified Commercial Clean Vehicle Credit

Mary Jane


- Issue 1: Conditional / Contingent Debt Obligations
- Issue 2: Business Bad Debt Deduction
- Issue 3: Fringe Benefits for Small Businesses
- Issue 6: Marijuana and other illegal businesses

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Issue #4 - Employer Provided Child Care credit 248



Up to 150,000
business tax credit!!



Child Care facility

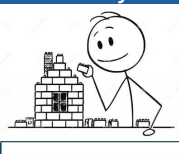
Form 8882 File for December 31, 2019. Department of the Treasury Internal Revenue Service		OMB No. 1545-0048
Credit for Employer-Provided Childcare Facilities and Services	▶ Attach to your tax return.	Attachment Requirement No. 1511
▶ Go to www.irs.gov/Form8882 for the latest information.		
Name(s) shown on return	Identifying number	
1 Qualified childcare facility expenditures paid or incurred 1		
Enter 25% (0.25) of line 1 2		
3 Qualified childcare resource and referral expenditures paid or incurred 3		
4 Enter 10% (0.10) of line 3 4		
5 Credit for employer-provided childcare facilities and services from partnerships, S corporations, estates, and trusts 5		
6 Add lines 2, 4, and 5 6		
7 Enter the smaller of line 6, \$150,000 . Estates and trusts, go to line 8. Partnerships and S corporations, stop here and report this amount on Schedule K. All others, stop here and report this amount on Form 3800, Part III, line 1k 7		
8 Amount allocated to beneficiaries of the estate or trust (see instructions) 8		
9 Estates and trusts. Subtract line 8 from line 7. Report this amount on Form 3800, Part III, line 1k 9		

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Qualified Child Care Expenditures 248

1. Facility

Acquire, construct, rehabilitate or expand



Subject to depreciation (not personal residence of taxpayer or employee)

- Follow local laws - licenses
- Principal use to provide child care assistance
- Enrollment open to employees (30% dependents of employees)
- Not discriminate in favor of highly compensated employees
- Can be in residence of person operating the facility

25%

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NOT IN BOOK

If, as of the close of any taxable year, there is a recapture event with respect to any qualified child care facility of the taxpayer, then the tax of the taxpayer under this chapter for such taxable year shall be increased by an amount equal to the product of—

(A) the applicable recapture percentage, and

If the recapture event occurs in:	The applicable recapture percentage is:
Years 1-3	100
Year 4	85
Year 5	70
Year 6	55
Year 7	40
Year 8	25
Years 9 and 10	10
Years 11 and thereafter	0.

Any recapture tax is reported on the line of your tax return where other recapture taxes are reported (or, if no such line, on the "total tax" line). The recapture tax may not be used in figuring the amount of any credit or in figuring the alternative minimum tax.

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Qualified Child Care Expenditures 248 + 249

2. Operating costs
Includes costs related to training and scholarships
Contract to provide facility for child care services

3. Resource & Referral
Contract to provide child care resources and referral services

10%

25%

6

Issue #5 – Employer provided meals and entertainment 250

<p>Meals taxable to employee</p> <p>General Rule – yes</p> <p>2 exceptions</p> <ol style="list-style-type: none"> 1. De minimis IRC 132 2. For convenience of employer IRC 119 	<p>Meals deductible by employer</p> <p>General Rule – no deduction</p> <p>Unless:</p> <p>To be discussed.....</p>
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Issue #5 – Employer provided meals and entertainment 250


1. Meals


- IRC 274(k) - No deduction

unless:

2. Reg 1.274-12(a)

- Not lavish or extravagant
- Taxpayer or employee is present (including travel)
- Provided to the taxpayer or a business associate



3. THEN 274(n): 

4. THEN 274(e): 6 exceptions

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Employer provided meals and entertainment 250

For this purpose, *food or beverage* means – all food or beverage items regardless if considered meals, snacks, etc.. Includes delivery fees, tips, sales tax.

Even if the food or beverage is considered a de minimis fringe benefit under IRC 132.

Business Associate – reasonable expect to engage or deal with: customer, client, supplier, employee, agent, partner or advisor. Whether established or prospective.

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Example 7-19 250

Art Gallery

Owner Manager - employee

Lunch to discuss annual performance review

?

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Example 7-19 250

Art Gallery

Owner Manager - employee

Lunch to discuss annual performance review

50%
deduction

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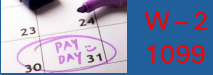
Employer provided meals 250

-50%


But
6 big exceptions!!!

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Exceptions to the limitations 251




expense → Reimbursed expenses
reimbursement ←



Employee recreation



Available to the general public



Sold to general public


NOTE: A lot more detail in the 2020 Workbook! COVID year!!

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Meals furnished on employer's premises 251

IRC 119

- Meals provided on employer's premises
- Convenience of employer



2025 and before	2026 and after
1. 50% employer deduction	1. No employer deduction
2. Excluded from employee's income	2. Excluded from employee's income

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Limits on Entertainment Deduction 251

- No deduction for entertainment, amusement or recreation!!
- What is "entertainment"?
 - "any activity that is generally considered to constitute entertainment, amusement or recreation"

bars

theatres

Hunting/fishing trips

golf

Country clubs

Athletic clubs

Sporting events

} Even if related to active conduct of a business

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Exceptions to the limitations 251

expense → **Reimbursed expenses**
← reimbursement

- W-2 1099** (with calendar icon)
- Employee recreation** (with picnic icon)
- Sold to general public** (with 'For Sale' sign icon)
- Available to the general public** (with bread icon)
- Provided to employees on business premises** (with sandwiches icon)
- Business meeting (not in meals exceptions)** (with meeting icon)

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Food /Beverage at Entertainment Activity 251

Purchased separately OR Stated separately on invoice → Entertainment Activity (circle) → Food or beverage (box)

Can't just allocate

If not, no deduction

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Recreational Expenses for employees 252

Holiday Parties | Picnic | Summer outing | Other similar event

Food/Beverage (50% allowed?) | Entertainment (0% allowed?)

No Limitation. Both fully deductible

(As long as it does not discriminate in favor of highly compensated)

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Example 7.20 252

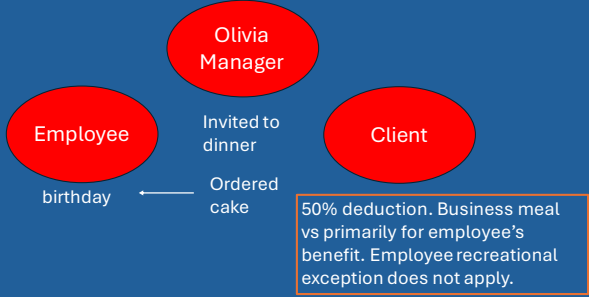
Ambient Electric hosted a Holiday Party for **all employees**



100%

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Example 7.21 252



Olivia Manager
Invited to dinner
Employee birthday
Client
Ordered cake
50% deduction. Business meal vs primarily for employee's benefit. Employee recreational exception does not apply.

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Example 7.22 252



Sandwich shop
Free Coffee snacks
For employees. Not recreational or social.
50%

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Expenses treated as compensation 253

2024			
1. Employer identification number (EIN)	2. Name of the employer	3. Federal identification number (FIDN)	4. Name of the employee
5. Social Security number (SSN)	6. Date of birth (MM/DD/YYYY)	7. Address (street, city, state, ZIP)	8. Marital status
9. Exemption status	10. Number of dependents	11. Name of dependent	12. Relationship to employee
13. Date of separation	14. Date of termination	15. Date of death	16. Date of disability
17. Date of death	18. Date of disability	19. Date of death	20. Date of disability
21. Date of death	22. Date of disability	23. Date of death	24. Date of disability
25. Date of death	26. Date of disability	27. Date of death	28. Date of disability
29. Date of death	30. Date of disability	31. Date of death	32. Date of disability
33. Date of death	34. Date of disability	35. Date of death	36. Date of disability
37. Date of death	38. Date of disability	39. Date of death	40. Date of disability
41. Date of death	42. Date of disability	43. Date of death	44. Date of disability
45. Date of death	46. Date of disability	47. Date of death	48. Date of disability
49. Date of death	50. Date of disability	51. Date of death	52. Date of disability
53. Date of death	54. Date of disability	55. Date of death	56. Date of disability
57. Date of death	58. Date of disability	59. Date of death	60. Date of disability
61. Date of death	62. Date of disability	63. Date of death	64. Date of disability
65. Date of death	66. Date of disability	67. Date of death	68. Date of disability
69. Date of death	70. Date of disability	71. Date of death	72. Date of disability
73. Date of death	74. Date of disability	75. Date of death	76. Date of disability
77. Date of death	78. Date of disability	79. Date of death	80. Date of disability
81. Date of death	82. Date of disability	83. Date of death	84. Date of disability
85. Date of death	86. Date of disability	87. Date of death	88. Date of disability
89. Date of death	90. Date of disability	91. Date of death	92. Date of disability
93. Date of death	94. Date of disability	95. Date of death	96. Date of disability
97. Date of death	98. Date of disability	99. Date of death	100. Date of disability

Meals provided to employees that do not meet the de minimis fringe benefit exception must be included in employee's income



100% Deductible


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Expenses treated as compensation – ex 7.23 253





Builder provides food and beverages to employees without charge at job site.

Includes amount in their W-2s

Uses Reg 1.61-21 to figure amount




100% Deductible

X

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To page 261

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Issue #7 Commercial Clean Vehicles 261

EV vehicle credits

<p>IRC 30D – new clean vehicle credit</p> <ul style="list-style-type: none"> > Can be <100% business use > MSRP limits > MAGI limits <p>IRC 25E – previously owned clean vehicle credit</p> <ul style="list-style-type: none"> > Smaller credit <p style="border: 1px solid red; display: inline-block; padding: 2px;">Chapter 10 – Page 385</p>	<p>IRC 45W – Commercial Clean Vehicle Credit</p> <p>(must be 100% business use and new)</p>
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Commercial Clean Vehicles 261

Why can't I just transfer the credit to the dealership when I buy the vehicle?

Q3. What are the requirements a buyer must meet to be eligible to transfer the New Clean Vehicle Credit or Previously Owned Clean Vehicle Credit to a registered dealer? (updated July 26, 2024)

A3. A buyer must be an individual and meet all eligibility requirements for the New Clean Vehicle Credit or Previously Owned Clean Vehicle Credit, as applicable. See Topic A, Topic B, Topic D, and Topic E. An individual does not include individuals.



Q17. Can I transfer a credit if I will use the vehicle for both personal and business use? (added Oct. 6, 2023)

A17. You can transfer the New Clean Vehicle Credit only if you intend to use the vehicle predominantly for personal use.

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Qualified Commercial Clean Vehicles 261

- > Qualified manufacturer
- > Acquired for use in trade or business, not sale
- > Use on public roads, not rails. Or mobile machinery
- > Propelled to a significant extent by an electric motor that can be recharged by external source of electricity
- > For use primarily in the U.S.
- > No 30D new clean vehicle credit claimed

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Qualified Commercial Clean Vehicles 261

Can you get the credit if you lease out the vehicle?

Yes, if it is a true lease, not a sale.


- Term of lease related to economic life
- Existence of terms of purchase options
- Etc...

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Qualified Commercial Clean Vehicles 262

- Per vehicle - lesser of:
 1. 15% of vehicles basis (30% if no internal combustion engine) - pretty easy
 2. Incremental cost of the vehicle - What?


Maximum 7,500 < 14,000 pounds
40,000 > 14,000 pounds




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Qualified Commercial Clean Vehicle Credit 262

Incremental cost of the vehicle

Purchase price **Excess cost**  Comparable vehicle powered by gas or diesel

Seems like that would be hard to determine! **BUT**  Safe harbor

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Incremental cost for tax year 2024 262

Notice 2024-5

The guidance informs taxpayers that the Department of the Treasury and the Internal Revenue Service have reviewed the incremental cost for all street vehicles in calendar year 2024. The analysis shows that the incremental cost of all street vehicles that have a gross vehicle weight rating **of less than 14,000 pounds will be greater than \$7,500 in calendar year 2024.**

Accordingly, the incremental cost will not limit the available credit amount for street vehicles that have a gross vehicle weight rating of less than 14,000 pounds and are placed in service in calendar year 2024

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How big is a commercial vehicle that weighs over 14,000 pounds to get the credit up to 40,000?

Very Big!

EXAMPLES OF VEHICLES OVER 14,000 POUNDS GVWR

 Bucket Truck	 Delivery Truck	 Dump Truck
 Inner-City Tour Bus	 Large Motor Home	 Refuse Hauler
 School Bus	 Stake Truck	 Step Van
 Tanker Truck	 Tow Truck	 Tractor-Trailer Rig

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Claiming the credit 262

<p>IRC 45W</p> <div style="border: 1px solid yellow; padding: 2px; display: inline-block;">Commercial Vehicle</div>	<p>IRC 30D</p> <div style="border: 1px solid yellow; padding: 2px; display: inline-block;">Part Personal Part Business</div>
<div style="border: 1px solid yellow; padding: 2px; display: inline-block;">Business portion</div>	<div style="border: 1px solid yellow; padding: 2px; display: inline-block;">Personal portion</div>

8936 Schedule A part I
8936 Schedule A part V
Form 8936 part V
Form 3800
1040, Schedule 3 – line 6a

8936 Schedule A part II
Form 8936 part II line 6
Form 3800
1040, Schedule 3 – line 6a

8936 Schedule A part III
Form 8936 part II line 9
1040, Schedule 3 – line 6f

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Form 8936

Part I Credit for Business Investment Use Part of New Clean Vehicles

Part II Credit for Personal Use Part of New Clean Vehicles

Part III Credit for Previously Owned Clean Vehicles

Part IV Credit for Qualified Commercial Clean Vehicles

From Schedule A line 11 To Form 3800

So credit coming from Partnership and S corp K-1s can be added

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Form 990-SS

Part III Current Year General Business Credits (GBCA)

Form 8936, Part I

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SCHEDULE B
(Form 1041)

Additional Credits and Payments

Part I Nonrefundable Credits

Foreign tax credit, Attach Form 1116 if required

Credit for child and dependent care expenses from Form 2441, line 11, Attach Form 2441

Education credits from Form 8862, line 19

Retirement savings contributions credit, Attach Form 8880

Residential clean energy credit from Form 5695, line 15

Energy-efficient home improvement credit from Form 5695, line 32

Other nonrefundable credits

General business credit, Attach Form 3800

Credit for prior year minimum tax, Attach Form 8801

Adoption credit, Attach Form 8839

Credit for the elderly or disabled, Attach Schedule R

Reserved for future use

Clean vehicle credit, Attach Form 8936

Mortgage interest credit, Attach Form 8808

District of Columbia first-time homebuyer credit, Attach Form 8859

Qualified electric vehicle credit, Attach Form 8834

Alternative fuel vehicle refueling property credit, Attach Form 8911

Credit to holders of tax credit bonds, Attach Form 8912

Amount on Form 8978, line 14. See instructions

Credit for previously owned clean vehicles, Attach Form 8936

Other nonrefundable credits. List type and amount.

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Example 7.27 262 - 263

**Steve Tarrant
Schedule C**

47,000
→
100% business

Because it's 100% business, report as
Qualified Commercial Clean Vehicle

Page 263

Form 8936 – Schedule A Part V
 Form 8936 – Part V
 Form 3800 – Part III, line 1aa

}

7,500

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Recapture? 263

No specific reference to recapture in the text of 45W.

However, code authorizes IRS to issue regulations pertaining to recapture.

Logical to assume IRS will issue regulations requiring recapture if:

- the vehicle is modified
- Sold or used for personal purposes

Will there be a recapture period?

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Form 8936
Schedule A

{

Vehicle
information

100%

<100%

0%

Decision
point

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