

The Biz Beat Podcast – Episode 05: Energy Tax Credits, Tax Bill Update, and Sales Tax Nexus

Lee: Hey everyone, and welcome back to The Biz Beat by SVA, the podcast that helps business owners stay sharp when it comes to taxes, business trends and smart strategies. I'm your host, Lee Schwartz, Business Development Sales Director, and as always, I'm joined by Eric Trost, tax principal, both of us here at SVA Certified Public Accountants. Eric, welcome back. You ready to roll?

Eric: I'm ready to go.

Lee: All right, it's good to see you too. All right, if you're joining us for the first time, welcome. Every week, we'll break down what's going on in the world of tax and business, highlight a key issue that might affect you or your business, and answer a question from our inbox. So, let's jump into Episode number five. So, Eric, we've been talking at the beginning a lot about like a main segment, and because so much of the conversation out in the marketplace right now has been around tariffs and around this tax bill, we're going to switch it up a little bit. Our first segment today is going to be about what business owners need to be thinking about that might go away with this tax bill. Our second segment, we're going to focus on every week, kind of what changes.

Energy Tax Credits

Lee: But let's get back to that first one out of all the things that are out there right now, tax incentives for individuals and businesses, what are some things that might be going away that a business owner or an individual might want to pay attention to so they can take advantage of them before they're gone?

Eric: Yeah, yeah, it's good question. There is one of the significant things that this bill does is it's eliminating some of the energy incentives that are currently in place right now, not scheduled to be phased out or anything for years, but what this bill does is it phases them out after this year. So, in other words, this year is the last year, if this bill passes, that you can use some of these energy incentives. The biggest one, I think, that affects individuals, so not even businesses, but affects them too, but individuals more is the clean energy credit for electric vehicles. So, there's currently a \$7,500 credit to buy an electric vehicle. There's also a credit to buy a used electric vehicle. So, there's credits out there that are to encourage or subsidize the purchase of these electric vehicles. And think of like Tesla, or, you know, the new truck that Tesla has that I've been seeing more on the road on, those

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that might qualify for an electric vehicle credit will not qualify after the end of this year, if this bill is passed in its current form.

Eric: The other energy credits that are getting phased out this year, will be terminated this year, would be the solar credits and other wind production credits. So where does this come into play? If you're thinking of installing solar panels on your house, there's currently a 30% credit for that. So, if solar panels cost \$30,000 you get a 30% credit. That's \$9,000 credit towards the purchase. That credit is going to go away after 2025 as well, if this bill passes in its current form. So, if you're thinking electric vehicle or solar panels for your house, those are the types of things that will not be available anymore after this bill or when this bill passes, let's say. Maybe I should say. Yeah. But I'll say, if and when this bill passes, those won't be available anymore to individuals and businesses. So that's what you want to focus on. And then think of everything you're doing with respect to that, say, clean energy, renewable energy sources, those are all things that are on the table right now to be eliminated as part of the pay force. So it's not just the electrical vehicle credit and the solar, those are the big ones that people are using, but there's other items within there as well that if those are considered investments for your business or as an individual, you want to do in the near future, you want to look at the very near future for those.

Lee: So, Eric, we've talked in the past about prior tax legislation, and when it comes into effect, whether sometimes it's a date in the future, sometimes it's when the actual legislation is passed, and sometimes it's retroactive. From what you've seen so far, I'm hearing you say your sense is, any these provisions are going to stay in through the end of the year? Is that sort of what you're thinking?

Eric: Yeah, so right now, the current form of the legislation, the proposed legislation, has these credits still in place through the end of 2025. So that could, that could be subject to change as they negotiate this bill through. But right now, those credits that were, that are currently in the tax law would still be there through the end of 2025 but then that's it. They are terminated after 2025.

Lee: Okay. And then I'm going to throw a question at you that I, this is going to be a hard one. Is this about when you place a project? And so, for instance, with solar, is this when you put a project in service? Is it when you sign a contract? Is it when you pay? Any sense on how that typically works, knowing that could probably come down to the wire now.

Eric: Yeah. Typically, it's when you place it in service. There's a kind of tax term for when you get an asset and when you place it in service, and it's not necessarily when you pay for it. I get the question, you know, if I'm buying a vehicle and I want to depreciate it, so a little bit different category, but if I'm

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buying a vehicle and I want to depreciate it, do I have to pay for it before the end of the year, or do I just have to take ownership of it? Can I, you know, sign the contract? And really, the answer is, all you have to do is take possession of it and have it ready for service, and whatever you're going to use it for. You don't have to pay for it, but you do have to have it in service. So, as long as the legislation proposed remains as is, doesn't have mean you have to pay for the car or the solar panels prior to the end of the year, but they do have to be installed, or you do have to take possession of the car prior to the end of the year.

Eric: Now, there's always some finagling that goes on when they get to the final bill, like, well, if you had a signed contract in place, we'll grandfather you in, even if it ends up being in 2026, so those details, I think, will still be worked out. But I think if you want to be safe, you want to have possession of whatever you're buying for these clean energies, you want to have possession of it prior to the end of the year.

Lee: Right. Okay. With an electric car, I mean, obviously that can be done last minute. But for a solar project, if you are thinking about doing that, it sounds like you better, you better get moving on that.

Eric: Yeah, and electric cars, it may not be able to do the last minute. You know, you go to the lot, and it's not like your car is sitting right there on the lot. They may have to order it. There was a time when the Ford has the e150. So, there's the F150, the regular truck that's very popular. Ford also has a e150, which is their electric truck. The waiting list on that was six to eight months at one time. I don't know what it is right now, but that means you can't just go in and expect to go get one off the lot on December 31. Car dealer would probably love to sell it to you, then just a matter of, do they even have the inventory or stock to sell to you?

Lee: Right. It's kind of interesting. It might, might be an interesting indication of how, how Elon is not as involved in the administration as he once was, knowing that this is part of their, I'm sure he's not very happy about that, with that going away.

Tax Bill Update

Lee: But let's, let's move on to our second segment. So we're going to, as I said before, we're going to really focus in on the tax bill. Everything's changing day to day, much less week to week. So Eric, can you talk to us a little bit about just what's happening since our last podcast last week? What's in, what's out, where, where we're at in the process at the moment?

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Eric: Yeah, I'll focus on where we are in the process right now. There are many steps along the way to get a bill passed. If you're of the I'll call it the age I am, or the experience I am. Probably remember a show called, How Does a Bill Get to Capitol Hill? Or there's a little bill outside the Capitol steps singing a song, I'm just a bill on Capitol Hill.

Eric: And really what that is, is it's for kids, and it just shows them how law becomes made. Well, where we are in that process is, you know, things have to go through the House of Representatives, then they go to the Senate, and then they go to the President for signing. As of right now, we're at stage one in the House, but we've got draft legislation that has made it basically through every committee it has to go through, and could be introduced onto the floor for a House vote as early as this week, this week being the week before Memorial Day. So that's their plan to get it done. There are a couple hold ups right now, the two biggest hold ups being the SALT cap limitation, which we talked about before. That's the state and local tax limitation. The current law is \$10,000 the original proposal on the draft legislation was to raise that cap to \$30,000 and now they're looking at a new deal that it actually would go up to \$40,000.

Eric: That's one of the holdups right now. There are some within the party, the Republican Party, that want to see that, there's some that don't. The other hold up is the cuts and work requirements that are going to affect the Medicaid and food stamp programs. And some Republicans want those cuts and work requirements to kick in right away, and others are saying they can be delayed and kick in later. That all affects the cost of this bill. And at the end of the day, that's what they're looking for, is, you know, if this bill is projected to raise the deficit, which it is, how much do they want to raise the deficit by? Some Republicans are more financially conservative and say, we've got to pay for more of this right now. And others are not as financially conservative and said, "Don't worry, we'll get it later". So that's the debate going on right now. Trump, of course, is pressing to get a deal done and speaks or tweets or puts things on Truth Social. What do you call it when you put something on true social?

Lee: I think it's truth. I think it's the truth.

Eric: Okay, yeah. So he puts the truth out. I'm going to use truth with a small t. He puts the truth out on Truth Social, as far as what he wants to see done. So you can, you can follow along pretty easily with this president. I would say he's, if nothing else, very transparent as to what he wants and what he puts out there. And so we're at right now is the House is appears pretty close to bringing this to the floor for a vote. You know, Trump is certainly backing the legislation hard and, you know, putting his thoughts out there. If the vote happens in the in this legislation passes the House, and it goes to the Senate, and then the Senate will put their twists on it, and that's where the negotiation happens.

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You know, they have to go through the with the Senate, another set of legislatures that can make their own changes to this, you know, based on what their thoughts are, and, you know, the lobbying groups that get into the Senate tier.

Lee: So still, a lot of moving pieces I'm hearing. I know Trump had said at one point he wanted to see this pass by July 4. You, in our first episode, predicted beginning of November. What's your sense right now of where this is going?

Eric: Yeah, it's perhaps I underestimated what Trump can put through quickly. He seems to have used the what they call the bully pulpit. You know, when you're president, I think they call this the bully pulpit, which means you can get up and talk and cajole and do those sorts of things. He seems to use that really well, and maybe it'll get done before then. But there's still a lot to work out on this, so I'm sticking with my November. And if it happens before that, great. I mean, I think everyone would want to see it, just from a clarity standpoint, happen before then, whether they like what's in it or not, at least they know what's in it and what's going to you know how it's going to affect them this year and going forward. So it would be great to get it done earlier than that. Just don't have faith in the system that they're going to be able to completely agree to everything before then. I guess it just comes down to, maybe I'm underestimating Trump. If it gets done earlier, certainly he will be a main cause of it getting done earlier.

Lee: Right. You talk about the bully pulpit. There's the old saying, walk softly, carry a big stick, and Trump is more the, you know, walk, walk loudly, carry a big stick, talk loudly, do it all, do it all loud. And that can work. It can work for him. So sure, a lot, a lot, a lot a lot more ahead. For sure, things to pay attention to. We will keep you up to speed on all the goings on, so stay tuned.

Sales Tax Nexus

Lee: But let's move on to our next segment, which is our inbox. If you have a question, just a reminder, you can send it to us at bizbeat@sva.com, or drop it at sva.com/bizbeat. So, this week's question, Eric. I'm thinking this is not from a client, because hopefully we would have educated a client on this topic. But the question is, I was told I should file a zero return in a couple of states. What's the point of doing that?

Eric: Right and without knowing the this asker's specific intention of saying that, I'm going to posit a guess in what they're talking about here, and the advice they've been given is related to a term called Nexus. And Nexus simply means the ability of a state to tax a person and is there enough connection

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between a person in that state that the state's allowed to tax them. So, for example, live in Wisconsin and our businesses in Wisconsin. What stops Illinois from taxing us? Well, there's specific rules out there that say, Hey, if there's not a connection between what you're doing, where you're living, and the business you're running and the state of Illinois, then Illinois does not have the power to tax you. Those rules have been changing over time, especially with the internet economy. There is a lot more interstate movement of goods and services that can happen through things like think of Amazon. Amazon can sell everywhere now just through their website. Think of providing services, even the services we provide, CPA services, those can be provided out of state, relatively easy, with electronic communications back and forth. We don't need to physically be present or have paperwork anymore. It's done all electronic.

Eric: So what's probably being suggested here is that there are rules in place that allow a state to tax or not tax a certain organization depending on how much activity that organization has within the state. The rules say that if there is some minimum connection, though, there can be sales tax that has to be collected. And there's a recent court case, called Wayfair, that allows for states to be more emboldened to collect, to collect sales tax and income tax. So it's easier for states to collect that sales tax. The threshold is lower that you cross, and so a business might be subject to sales tax in a state, but maybe didn't reach a threshold to be subject to income tax. In that case, we often suggest to a company to do an income tax return, but file a zero-income tax return, and here's why.

Eric: What it addresses is, let's say that you're doing sales tax in a state. Companies filing sales tax in a given state, but they're not filing income tax returns in that state. They're not starting any statute of limitations with respect to those income taxes. So we discussed statute of limitations before, that's the ability of a state or the federal government to go back in time and collect tax from you. Those statute of limitations don't generally start unless you file a tax return. So if you don't file a tax return, we talked about a three year, four year, there is no limitation if you file no tax return. So in order for your company to start this statute and say, Hey, we're filing a tax return, we acknowledge we have presence in the state, but we don't have enough presence to pay you income tax, so we're putting a zero down. So that's why we'd file a zero-income tax return. And if you want to question it, come question us, but you're not going to go back in time and question me, because I didn't file, because here I've got a return. So I've started my statute with you.

Lee: Okay.

Eric: So that's often why we might recommend a zero income tax return.

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Lee: And so Eric, you know, especially me, as a non-CPA working at a CPA firm, I hear all these acronyms all the time. We're talking about SALT as it relates to the, to the tax bill. We also talk about SALT as it relates to just how a company files in other states and municipalities, state and local tax. So this is one of those things that business owners need to be thinking about if, hey, if they are at all active in other states, like thinking about how, how they are treating that on their taxes to protect themselves? Is that right?

Eric: Yeah, that's correct. It's really about mitigation of risk and mitigation of exposure to what tax liabilities could be out there with these states.

Lee: Okay, great. So, a lot of acronyms out there, but for you business owners, SALT, state and local tax, be thinking about how you, how your business, I guess, is, creates nexus in other states and municipalities, because that can certainly affect you in the long term. So that's great. Thank you so much for that question.

Lee: Eric, that's a wrap on episode number five. If you found today helpful, be sure to subscribe on Apple podcasts, Spotify or YouTube and share it with someone else running a business that you think might find this helpful. You can also sign up at sva.com/bizbeat to enter our Amazon gift card drawing. If you are one of the first 100 subscribers, you'll be in that drawing. And don't forget the strategies we talk about here are just those, they're just general strategies. Please rely on your advisor to make specific advice for your situation. If you are an SVA client, please reach out to your SVA professional if you have questions. And if you're not, let's give that a fix. Give me a call and we can make sure to make you one. Thank you for listening, and we'll see you next week on The Biz Beat by SVA.

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