

The Aerospace & Defense Forum

“Increasing Cash Flows during COVID-19”

May 12, 2021

- Please ensure your mike is muted and your video is off.
- Questions will be welcomed via the Chat function.
- The event will start at 8:00AM Pacific Time.

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The Aerospace & Defense Forum

Who We Are...

- An 11-year-old global aerospace and defense leadership community of over 2,400 professionals that facilitates communication, collaboration, and commerce relative to the business of A&D
- Nine chapters – Los Angeles, San Fernando Valley, Santa Clarita Valley, South Bay, Orange County, San Diego, Arizona, Dallas-Ft. Worth, and Ventura County.
- Conduct monthly meetings with presentations, panels and tours with industry leaders focused on some aspect of the business of A&D




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The Aerospace & Defense Forum

Webinar Guidelines

• Turn off camera video	Alt+V	⌘+Shift+V
• Mute audio	Alt+A	⌘+Shift+A
• Active Speaker View	Alt+F1	⌘+Shift+W
• Questions in Chat addressed to Everyone.		

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Moss Adams National Aerospace and Defense Practice Tax and Financial Planning in the Time of COVID-19

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Your Presenters



Peter Henderson, CPA
Partner

Peter has worked in public accounting since 2008. He specializes in federal and state R&D tax credit incentives. Peter has extensive experience in mechanical and high-tech industries, including aerospace, defense, space-tech, automotive, manufacturing, and hardware and software development. Peter has degrees in both engineering and accounting. Prior to joining Moss Adams, Peter spent several years performing R&D tax credit studies at a Big Four firm.



Larry Schultz
Partner

Larry has practiced public accounting since 1992. He has experience directing all phases of audits—including control testing, fieldwork, and report preparation—for a variety of clients. Larry works primarily with aerospace and consumer-based companies, including those with manufacturing and distribution operations, as well as hospitality organizations. Larry also works with public companies with SOX 404 implementation across significant acquisitions. In addition, he supports private companies and private equity groups with tax financial reporting, internal controls, and governance matters.



Craig Lammitt
Tax Senior Manager

Craig has practiced public accounting since 2001, specializing in state and local tax. He provides advisory/income/franchise tax services to clients in a variety of industries including technology, manufacturing, and telecommunication and media clients. Craig consults with clients on statutory and discretionary credits and incentives related to economic development activities such as job creation and retention, capital investment, and employee training. He also advises clients on multistate incentive opportunities related to site selection, corporate expansion, and relocation.

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Agenda

- Overview
- Federal Incentives
- State Incentives
- Q&A

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Overview

The purpose of this presentation is to provide a comprehensive overview of financial incentives available to aerospace & defense companies.

This includes both existing (pre-covid) incentives as well as new incentives resulting from the COVID stimulus bills:

- Coronavirus Aid, Relief, and Economic Security Act (CARES) signed into law on March 27, 2020
- American Rescue Plan Act signed into law on March 11, 2021
- Various state bills



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Federal Incentives

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Air Transportation Payroll Support (PSP)

Originally passed in the CARES Act but received additional funding in the ARPA:

- ARPA extended \$15B to the program for air carriers and supporting functions
- Extended \$3B to aviation manufacturing contractors (MROs & component mfgs) to facilitate retention/rehire of employees.
 - Eligibility: (1) Involuntarily furloughed or laid off at least 10% of its workforce in 2020 over 2019, (2) experienced a +15% decline in revenue in 2020 over 2019
- Can cover up to 25% of the company's workforce
- Restrictions: cannot double dip with ERTC or PPP



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Research Credit Overview

- One of the most lucrative tax incentives available to A&D companies
- Most states with income taxes also offer an R&D credit (e.g. CA, AZ, ID, UT, TX, etc.)
- Expense driven credit (e.g. wages, supplies, contract research, etc.)
- Definition of R&D is more expansive than most people assume
- Not limited to just IRAD (work under contract can also qualify)
- Generally companies claim this credit year-after-year
- Fairly strict documentation requirements
- Certain start-up companies can use the credit to offset payroll taxes

Cost Segregation

- Tax deferral strategy that frontloads depreciation deductions into the early years of real estate ownership
- Identifies, separates, and classifies real and personal property assets or buildings and equipment components into shorter recovery periods
- Significantly shorter tax lives—5-, 7-, and 15-years—rather than the standard 27.5- or 39-year depreciation periods
 - **27.5-year property:** Residential rental property, such as multifamily properties and senior housing (independent living, assisted living, memory care)
 - **39-year property:** Nonresidential real property – all other commercial property
- Increase current and future deductions, as well as catch-up "missed" deductions for past depreciation
- Reduces current tax liability – time value of money



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CARES Act – Tax Law Changes

Net operating loss carrybacks permitted for losses generated in 2018, 2019 and 2020

- The act increases the five-year net operating loss (NOL) carryback for losses arising in any taxable year beginning after 2017, but before 2021. A taxpayer may elect to forgo the carryback
- Special rules are provided for taxpayers that had a transition tax obligation under Section 965 in view of the carryback years

Payment of employer payroll taxes deferred

- Employees can defer payment for the employer portion of payroll taxes incurred between the date the CARES Act is enacted through December 31, 2020
- If deferred, the employer would instead pay 50% of this amount by December 31, 2021, and the remaining 50% by December 31, 2022. The eligible payroll taxes are the employer's portion of Social Security taxes—6.2% of an employee's wages
- Self-employed taxpayers can also defer the employer's portion of Social Security taxes in the self-employment tax

Employee Retention Credit for employers

- Eligible employers may claim a credit against Social Security taxes for each calendar quarter equal to 50% of qualified wages up to \$10,000 per employee. If the credit for the quarter exceeds the employer's Social Security tax liability, the excess is refunded
- Eligible employers operating a business during 2020 must have experienced either:
 - A partial or full suspension of the operation of their trade or business during the calendar quarter due to governmental orders that limited commerce, travel, or group meetings due to COVID-19
 - A significant decline in gross receipts from 2019

Section 166(i) limit increased for 2019 and 2020

- The act increases the Section 166(i) interest deduction limitation from 30% to 50% of adjusted taxable income (ATI) for tax years beginning in 2019 or 2020. Partnerships, however, remain subject to the 30% limitation for tax years beginning in 2019

Qualified Improvement Property (QIP)

- The long-used depreciable nonresidential real property improvement property QIP is here
- QIP is any improvement made by the taxpayer to the interior portion of nonresidential real property after the building was first placed in service, excluding improvements to enlarge the building, any elevator or escalator, or the internal structural framework of the building
- The fix is retroactive so taxpayers that placed QIP in service in 2018 are able to treat such property as 15-year property eligible for bonus depreciation

Accelerated recovery of alternative minimum tax credits for corporations

- Since the repeal of corporate alternative minimum tax (AMT) by the TCJA, corporations with carryover AMT credits have been able to recover the credits over a four-year period. Under the CARES Act, a taxpayer may claim a refund for any remaining AMT credit carryover in their first tax year beginning during 2019 under new Section 53(c)

Excess business loss rule suspended through 2020

- Postpones the excess business loss rules for individual tax years to 2021. Change is retroactive to 2018, which provides opportunity to amend 2018 if business losses were limited



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Other Federal Tax Strategies

Additional tax strategies to generate cash to help your organization grow during challenging times:

- Quick Refund Claims available for C corporations
- Accounting Method Changes for Inventories, Supplies & Rotable Parts

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Federal Employment Incentives

Employee Retention Tax Credit (ERTC)

- Various acts clarify, expand, and extend the ERTC enacted by the CARES Act
- ARPA: Extended through December 31, 2021
- Enhancements for qualifying employers beginning January 1, 2021, not retroactive to 2020
- Retroactive changes available for PPP recipients waiving the restriction on their ERTC eligibility
- New employers not in existence for all or part of 2019 may claim the credit

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Federal Employment Incentives

2020 Qualification Guidelines March 13–December 31	2021 Qualification Guidelines January 1–December 31
Who is Eligible Employers whose business was fully or partially suspended due to emergency orders from an appropriate government authority that limited commerce, travel, or group meetings. Employers who had at least a 50% reduction in gross receipts for the current calendar quarter as compared to the same calendar quarter in 2019.	Employers whose business was fully or partially suspended due to emergency orders from an appropriate government authority that limited commerce, travel, or group meetings. Employers who had at least a 20% reduction in gross receipts for the current calendar quarter as compared to the same calendar quarter in 2019.
Employee Threshold for Determining Qualified Wages For employers with 100 or fewer full-time employees, measured as average employment in 2019, the credit applies to wages paid to all employees. For employers with more than 100 full-time employees, the credit only applies to wages paid to employees during the time they weren't providing services.	For employers with 500 or fewer full-time employees, measured as average employment in 2019, the credit applies to wages paid to all employees. For employers with more than 500 full-time employees, the credit only applies to wages paid to employees during the time they weren't providing services.
Calculating the Credit The credit is equal to 50% of wages paid to an employee after March 12, 2020, in each qualifying calendar quarter, up to a total of \$10,000 per all-employee. The credit may be worth up to \$5,000 per eligible employee. Qualified wages, for purposes of this program, include qualified health plan expenses incurred by the employer.	The credit is equal to 70% of wages paid to an employee after December 31, 2020, in each qualifying calendar quarter, up to a total of \$10,000 per employee. The credit may be worth up to \$28,000 per eligible employee. Qualified wages, for purposes of this program, include qualified health plan expenses incurred by the employer.

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Federal Employment Incentives

Work Opportunity Tax Credit (WOTC)

- Wage-based credit available to employers who hire individuals who may be facing barriers to employment and qualify under a specified target group
- Non-Refundable federal income tax credit; dollar for dollar reduction

GENERAL TARGET GROUPS	MAX CREDIT AMOUNT	VETERAN TARGET GROUPS	MAX CREDIT AMOUNT
Short-Term TANF Recipient	\$2,400	Food Stamp Recipient	\$2,400
Long-Term TANF Recipient	\$9,600 (over 2 yrs)	Receiving compensation for a service-connected disability AND Hired within one year of discharge from active duty	\$4,800
Food Stamp Recipient (ages 18-39)	\$2,400	OR	
Vocational Rehabilitation Recipient	\$2,400	Unemployed for at least 6 months	\$9,600
Rural Renewal Community Resident	\$2,400	OR	
Felon	\$2,400	At least 4 weeks	\$2,400
SSI Recipient	\$2,400	OR	
Unemployed for at least 27 weeks	\$2,400	At least 6 months	\$5,600

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Federal Employment Incentives

Work Opportunity Tax Credit (WOTC) (cont'd)

- Requires employers to screen new hires to determine qualification and file applications within 28 days from new hire's start date
- Typically integrated as part of automated onboarding systems
- Applications file with State WOTC Coordinators
- Verify qualification and issue certifications
- Extended through 2025
- As businesses begin to reopen and hire new employees, many may be able to take advantage of the WOTC
- Furloughed employees currently ineligible
- Rehired employees currently ineligible

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Arizona Incentives

Military Reuse Zone Contractor's Exemption

- The Arizona legislature established the Military Reuse Zone Program to lessen the impact of military base closures. The program achieves this goal by providing tax incentives to aviation or aerospace (A&A) companies, insurers and airport authorities located within a Military Reuse Zone (MRZ).
- The current Arizona military reuse zones are the Williams Gateway Airport and the Phoenix/Goodyear Airport.
- The Arizona Commerce Authority (ACA) accepts applications year round.
- A prime contractor must apply for a letter of qualification from the Arizona DOR prior to work beginning on each contract to receive the exemption.
- Annual reporting to the ACA is required for each contract through completion.

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Arizona Incentives

Military Reuse Zone Contractor's Exemption (cont'd)

Transaction Privilege Tax Exemption

- Exemption from the TPT on construction contracts performed at an MRZ.
- Applies only to state and county taxes; cities impose their own taxes.
- Must obtain a letter of qualification from the Arizona DOR prior to work beginning.
- Must submit a completion report to the ACA to maintain eligibility.

Property Tax Reclassification

- A&P companies may apply to receive property reclassification:
 - Both real and personal property can be reclassified from class one (18% assessment ratio) to class six (5% assessment ratio), potential property tax savings of up to 72.2% for five years
- Reclassification runs five years, then reverts to the standard assessment ratio.
- Additions or improvements to property qualifies for separately for reclassification under the program.

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California Incentives

California Competes

- 2020 – 2021 fiscal year allocation - \$231 million
- Annually three application rounds (July, January, March timeframe)
- Discretionary, extremely competitive
- GO-Biz treating as a deal closing program. Application needs to be presented in a site selection context
- Demonstrated out of state competition is critical. Economic impact analysis, sensitivity analysis, strongly encouraged

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California Incentives

Employment Training Panel – Training Grant

- ETP is a discretionary, competitive, grant reimbursement program offering cash grants for certain eligible employee training
- Reimbursed by set rate per hour of eligible training:
 - \$9/hour for on-line, computer-based training
 - \$20 - \$23/hour for classroom based and/or productive lab training
 - \$23/hour - new hire training, critical proposal, priority industry
 - \$20/hour - incumbent employee training
- Awards executed in, prospective, two –year contracts

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Texas Incentives

Texas Enterprise Fund

- Discretionary, competitive cash grant
- State's deal closing fund
- Focus on attraction

Texas Enterprise Zone

- Highly discretionary, competitive, sales tax refund
- Requires local nomination, local jurisdictions have limited number of nominations.
- Applications due quarterly

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Texas Incentives

Chapter 380/381

- Property Tax Abatements
- Awarded by municipalities/counties
- Performance based

Chapter 312/313

- 10-year limitation on the taxable property value
- Awarded by School District / Local governments
- Performance Based

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Washington Incentives

Exemption for Aerospace Manufacturers for Computer Hardware/Software/Peripherals

Available to:

- Manufacturers and processors for hire of commercial airplanes or component parts.
- Non-manufacturers engaged in the business of aerospace product development.
- Certified FAR repair stations.
- Aerospace tooling manufacturers.

Qualifying activity:

- Purchases of computer hardware, software, and peripherals, and charges for labor and services related to the installation of such equipment used primarily in the development, design, and engineering of aerospace products or in providing aerospace services.

Amount

- 100% exempt from sales and use tax

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Washington Incentives

Commercial Airplane Manufacturing Facility Exemption

Available to:

- Manufacturers of commercial airplanes, fuselages, and wings.
- Port districts, political subdivisions, or municipal corporations who lease facilities to these manufacturers.

Qualifying activity:

- Constructing new buildings and/or new additions to buildings primarily used to manufacture commercial airplanes, commercial airplane fuselages and commercial airplane wings.
- A port district must enter into an agreement with a manufacturer for the construction of an eligible facility.

Amount

- 100% exempt from sales and use tax

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Washington Incentives

Airplane Maintenance Facility Exemption

Available to:

- Eligible maintenance repair operator engaged in the maintenance of airplanes.
- Port district, political subdivision, or municipal corporation building and leasing facilities to an eligible maintenance repair operator engaged in the maintenance of airplanes.

Qualifying activity:

- Constructing new buildings and/or new additions to buildings primarily used to manufacture commercial airplanes, commercial airplane fuselages and commercial airplane wings.

Amount

- 100% of sales and use tax paid on eligible purchases

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Washington Incentives

B&O Credit For Property/Leasehold Taxes Paid On Aerospace Business Facilities

Available to:

- Manufacturers /processors for hire of commercial airplanes or component parts.
- Non-manufacturers engaged in the business of aerospace product development.
- Certified FAR repair stations.
- Aerospace tooling manufacturers.

Qualifying activity for manufacturers and processors for hire:

- Payment of property/leasehold taxes on new buildings, land, and the increased value of renovated buildings used exclusively in manufacturing commercial airplanes or components; or in manufacturing tooling specifically designed for use in manufacturing commercial airplanes or components of such airplanes.
- Payment of property taxes on equipment eligible for the machinery and equipment (M&E) exemption multiplied by a fraction for qualifying use.

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Washington Incentives

B&O Credit For Property/Leasehold Taxes Paid On Aerospace Business Facilities (cont'd)

Qualifying activity for certified FAR repair stations and aerospace non-manufacturers:

- Payment of property/leasehold taxes on new buildings, land, and the increased value of renovated buildings used exclusively in aerospace product development or in providing aerospace services.
- Payment of property taxes on qualifying computer equipment and peripherals used primarily in aerospace product development or in providing aerospace services.

Amount

- Property taxes paid on new buildings and land upon which the property is located.
- Property taxes paid on the increased value of renovated buildings.
- Property taxes paid on M&E exempt from sales and use tax.

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Washington Incentives

B&O Credit For Product Development Expenditures

Available to:

- Manufacturers/processors for hire of commercial airplanes or component parts of commercial airplanes.
- Non-manufacturers engaged in the business of aerospace product development.
- Certified FAR repair stations.
- Aerospace tooling manufacturers.

Qualifying activity:

- Performing research, design and engineering activities to develop an aerospace product or aerospace product line. Activities must be performed in Washington to qualify for this credit.

Amount

- 1.5% of aerospace product development expenditures. May not exceed B&O tax due.

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For Daily Updates: Please reference our [COVID-19](#) site on [mossadams.com](#)

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Q&A

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Upcoming Chapter Webinars/Meetings

Webinars start at 8:00am Pacific Time unless otherwise stated.

- **May 19:** "Post-COVID Aerospace Market Outlook"; Peter Zimm and Cliff Collier – Principals, Charles Edwards Management Consultants | [Los Angeles Chapter](#)
- **May 27:** "How To Be Innovative and Creative", Dan Curry - visual effects producer and supervisor on *Star Trek: The Next Generation*, *Star Trek: Deep Space Nine*, *Star Trek: Voyager*, and *Star Trek: Enterprise*. His work on these series earned him seven Emmy awards. He will speak how the innovativeness and creativity required in visual effects can be implemented by A&D organizations. | [Ventura Chapter – NEW Chapter](#)

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Upcoming Chapter Webinars/Meetings

Webinars start at 8:00am Pacific Time unless otherwise stated.

- **May 28, 5:30-7:00pm:** "International Distributorships – Pitfalls and Tips"; Mike Patterson, Attorney at Law, Spencer Fane LLP and Molly Ho, Sr. International Trade Specialist, Director - Global Technology Team, U.S. Commercial Service Phoenix, Arizona | [Arizona Chapter](#)
- **June 9:** "M&A Trends in the Aerospace Industry and Guidance for Small to Medium Sized Companies and How to be Prepared", Paul Croci, Managing Director, Head of Aerospace and Defense Investment Banking, Wells Fargo Bank, and Scott Dragicevich, Director, Wells Fargo Bank | [Santa Clarita Valley Chapter](#)

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The Aerospace & Defense Forum

Upcoming Chapter Webinars/Meetings

Webinars start at 8:00am Pacific Time unless otherwise stated.

- **July 15:** "The Future of the Wide-Body"; Jens Flottau, Executive Editor, Commercial Aviation, Aviation Week | [Santa Clarita Valley & San Fernando Valley Chapters](#)
- **September 23:** "A Business Health Assessment – Whether Exiting or Not"; Larry O'Toole, Founder, Yosemite Associates | [Los Angeles Chapter](#)

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- Recordings of over 250 chapter and webinar presentations are available for download by A&D Forum members.
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- Opportunities to sponsor chapters or webinars are available.

For more info:

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Thank You

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