TAX CLIENT SUCCESS STORY

COMPANY CLAIMS CNOL CARRYBACK UNDER CARES ACT PROVISION, RECEIVES $1.6M TAX REFUND

Challenge

A consolidated group of companies needed help determining their eligibility to claim NOL carrybacks after increasing their NOLs under the new expensing rules for QIP in accordance with Section 172, Section 382 and the CARES Act.

Solution

Armanino's Section 382 experts examined the company's acquisition timeline and confirmed that it was eligible to carry back its 2018 CNOL to the previous five tax periods.

Result

With Armanino's technical analysis, the company was able to take advantage of CARES Act provisions that allowed for QIP expensing and CNOL carrybacks, securing $1.6M in refunds from the IRS.

CLIENT CHALLENGE

A private equity firm had acquired and consolidated a group of companies, which included laboratories and supplement manufacturers, over a five-year period. After utilizing the qualified improvement property (QIP) expensing rules under the Coronavirus Aid, Relief and Economic Security (CARES) Act, the firm needed to determine what consolidated net operating losses (CNOLs) could be carried back to which years, and how the CARES Act would impact their eligibility under Section 172 and Section 382.

THE TAX ISSUE

Prior to the CARES Act, the Tax Cuts and Jobs Act (TCJA) had removed the ability for this group of companies to carry back net operating losses (NOLs) and offered no QIP expensing rules. In response to the COVID-19 pandemic and its effects on the economy, the CARES Act modified eligibility rules for various tax provisions. First, it allowed the carryback of NOLs for five years prior to the carryback year. Second, pursuant to Revenue Procedure 2020-25, it included additional assets in the definition of QIP, which allowed the company to expand the amount they could attribute to bonus depreciation.

OUR SOLUTION

The CARES Act allowed for expensing of QIP and reinstated CNOL carryback provisions that had been unavailable due to the TCJA. After performing a Section 382 study, our experts determined that the company could expense approximately $6.5M of QIP in the 2018 tax period.

This created a total CNOL of approximately $9M, which our team carried back to the prior five tax periods.

Armanino's experts had to technically confirm that:

- Section 382 would not affect the carryback
- Corporate equity reduction transaction (CERT) rules would not affect the carryback
- Alternative minimum tax (AMT) credit created by the carryback would be refundable
- The CNOL was correctly allocated to the consolidated group members that contributed to the CNOL pursuant to Treas. Reg. §1.1502-21(b)(2)(iv)

THE RESULT

Armanino's Section 382 experts recognized the opportunity that the revised rules presented for the company. In confirming eligibility, we were able to optimize their returns to account for CNOLs and claim $6.5M in QIP. We helped them amend their 2018 return and carry back the $9M of 2018 CNOLs to their prior five tax years. In total, the company received approximately $1.6M in refunds from the IRS.

OUR EXPERTS

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