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Application Of The Domestic Production Activities Tax Deduction (Relating To A Wide Range Of Industries)

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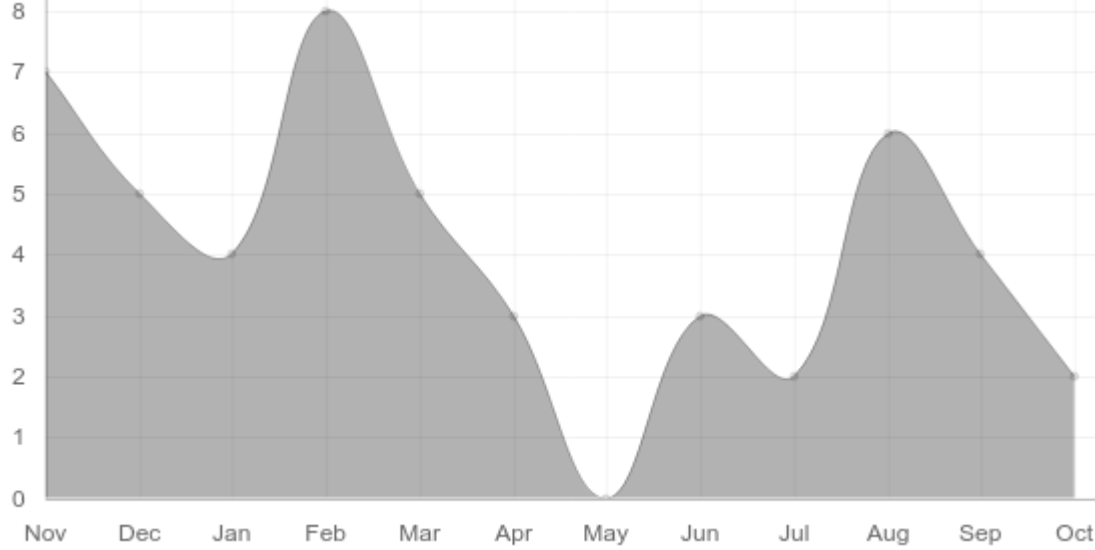
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Keywords

Abstract

Internal Revenue Code Section 199 is the domestic production activities deduction, which was enacted under the American Jobs Creation Act of 2004. This new deduction was to help compensate the repeal of the extraterritorial income exclusion. Section 199 was intended to lower the tax burden on domestic manufacturers as well as to attract new investments in domestic manufacturing facilities. The deduction would yield tax breaks for certain types of businesses ranging large to small that predominately manufacture, produce, grow, or extract tangible personal property entirely or partially within the United States. The types of businesses, specifically, that will have an impact from Section 199 would be those in the film and sound recordings industries, companies in the construction business, and those in the field of architectural and engineering. In addition, those that qualified as doing business in any of the specific industries falling under Section 199 must be located and providing services in the United States. The Section 199 tax break will also benefit those in the business of producing electricity, natural gas, and water in the United States. The deduction is allowed to be taken for taxable years beginning after 2004, which creates many challenges. First, Section 199 establishes detailed tax concepts conditions, de minimis rules, exceptions, and safe harbors. Second, the deduction forces many businesses to implement new accounting systems to classify between qualifying and non-qualifying activities. All in all, this report explains how Section 199 works as well as benefits specific industries. However, important production eligibility issues remain in determining the production deduction for tangible property, which are the central items focused throughout this article. Furthermore, the research contain within, covers the guidance in Notice 2005-14, along with the proposed and final regulations to the rules under Section 199. An understanding of these rules will provide additional opportunities to qualify property and take advantage of tax breaks, yielding a better financial result to the taxpayer.

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