

## **New Tax Break for Manufacturing, Construction Aims to Keep U. S. Production at Home**

*By Perry Barnett*

If you are a manufacturer or a construction company with employees, it's possible that the domestic production activities (DPA) deduction could mean considerable tax savings for your business over the next several years.

As the centerpiece of the American Jobs Creation Act, the DPA deduction was created to stimulate the American economy and to encourage U.S. companies to manufacture and build on American soil.

The deduction equals a percentage of your company's taxable income from qualified production activities up to 50 percent of the company's W-2 wages. For tax years 2005 and 2006, the deduction is 3 percent. It goes to 6 percent for tax years 2007, 2008 and 2009. In 2010, the deduction jumps to 9 percent.

Here's an example. Let's say that ABC Manufacturing, Inc. operated a single line of business in 2005. During the year, the company generated \$100,000 of Qualified Production Activities Income (QPAI) and taxable income of \$100,000. During 2005, ABC also paid W-2 wages of \$150,000. Using the DPA deduction, ABC is able to deduct 3 percent of \$75,000 (half of its W-2 wages) or \$2,250. In 2010, this same scenario will result in a \$6,750 deduction.

With the deduction growing over the course of the next four years from 3 percent to 9 percent, a change in operational and compensation structures may be warranted in order to maximize the use of the deduction. If your business manufactures or builds in the USA, you should talk with your tax advisor about your options.

Be aware that there are some catches. For manufacturers, labor must be a substantial component of the manufacturing process. You can qualify for the deduction even if you get goods from overseas, bring them here and manufacture your product in the USA as long as labor costs are a significant portion of total manufacturing expenditures.

In the area of construction, those that will benefit most will probably be sub-contractors like plumbing companies, HVAC companies and others that have employees on the payroll. If you are a home builder and sub-contract all of your labor, then you

won't qualify for the deduction. Land developers who simply buy land and then sell it won't qualify either. Or, if you construct a building and then rent it out, that doesn't qualify either. In general, you must actually perform the construction activity to be eligible for the DPA deduction. In certain situations, architectural and surveying firms qualify for the deduction.

To assess whether your company can benefit, first remember that the deduction is based on W-2 wages and QPAI. Then consult your tax advisor. The DPA deduction is complicated but well worth investigating. If your company qualifies, it could save significant tax monies in the future that can be better used by your company.

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