

Domestic Production Activities Deduction

For federal income tax purposes, certain taxpayers may claim this “manufacturer’s deduction” for tax years beginning after December 31, 2004.

The domestic production activities deduction currently is 6% of: (1) the lesser of the taxpayer’s qualifying production activities income - or (2) taxable income for the taxable year, subject to a limitation based on 50% of wages paid.

For tax years beginning in 2005 and 2006, the deduction was 3%; for tax years beginning in 2007, 2008, and 2009, the rate doubled to 6%; for tax years beginning in 2010 and thereafter, the rate increases to 9%.

Construction of Real Property, Engineering and Architectural Services for Real Property Construction Projects are qualifying activities for purposes of this tax deduction.

All contractors and subcontractors working on qualified real property construction activities are entitled to this deduction. The activity must be conducted in whole or in significant part within the United States in order to qualify. The contractor’s level of involvement must be substantial in nature, determined by analyzing the relative value added and the cost of the activity.

Construction activities include the substantial renovation of real property. Substantial renovation means the renovation of a major component or substantial structural part of real property that materially increases the value of the property, substantially prolongs the useful life of the property, or adapts the property to a new or different use. Real property includes all inherently permanent structures (except for machinery that is personal property), land improvements, and infrastructure. Infrastructure includes roads, power lines, water systems, communication facilities, sewers, sidewalks, cable, and wiring.

Engineering and architectural services for construction of real estate also qualify for this tax benefit. Engineering services include any professional services requiring engineering education, training, and experience and the application of special knowledge of the engineering sciences. Architectural services include consultation, planning, aesthetic and structural design, drawings and specifications, or responsible supervision of construction (for the purpose of assuring compliance with plans, specifications, and design) in connection with any construction project. In addition, administrative support services provided in connection with engineering and architectural services are attributable to a qualifying service.

The above is intended as a summary of the construction, engineering, and architectural activities which qualify for the Domestic Production Activities Deduction. Please contact us for any specific questions you may have regarding your ability to claim this deduction.

NOTE: This newsletter represents a general overview of tax developments and should not be relied upon without an independent, professional analysis of how any of these provisions may apply to a specific situation. This information is not a substitute for a personal consultation with a CPA.

DISCLAIMER: This advice is not intended or written to be used, and cannot be used by recipient, for the purpose of (i) avoiding penalties that may be imposed under the Internal Revenue Code or applicable state or local tax law provisions or (ii) promoting, marketing, or recommending to another party any transaction or matter addressed herein.