



Manufacturing and Distribution Industry Group Alert



TAKING ADVANTAGE OF OPPORTUNITIES IN AN ECONOMIC DOWNTURN

As 2009 draws to a close, there are many businesses that are glad this year will soon be over. The past year has presented several challenges that can turn into opportunities as the economy begins to turn around. While the current economy remains uncertain, based on many economists' opinions, it does appear that the current recession ended sometime in June of 2009. However, the economic predictions for the next 18 months project a slow recovery.

Government stimulus programs have spurred production in the manufacturing sector in the short-term. These are the "cash for clunkers" and the first-time homebuyer credit programs. In early November, the first-time homebuyer credit was extended until April 30, 2010, and, in certain cases, expanded to include existing homeowners. It does not appear that there will be any additional stimulus programs after this program expires. Because of this, many economists are projecting limited growth for 2010.

The high level of unemployment in the U.S. over this past year has directly been impacted by job losses in the manufacturing sector, which represents approximately 10% of the U.S. workforce. Many manufacturers have used this past year as an opportunity to "right size" their operations and become much leaner organizations.

On a positive note, the manufacturing sector had record low inventory levels in the third quarter of 2009. This indicates that manufacturers will need to increase production for restocking purposes and new orders. The economy will dictate if this short-term production increase can be sustained.

Now that the tough decisions have been made, and your company is poised to take advantage of an economic upswing, the following are a few suggestions to consider and take advantage of as 2009 draws to a close:

Strategic Planning Options to Consider

- Manage cash flow (extend payables, expedite receivables and reduce fixed costs to the extent possible)
- Monitor debt covenants to ensure compliance
- Lower inventory levels results in increased cash flow, but be sure to consider possible increases in lead times
- Analyze and consider changing to the LIFO inventory method in 2010, which may result in tax benefits if costs should rise next year
- Commercial real estate market provides an opportunity for expansion
- Retain the top talent in your organization

Tax Law Opportunities and Changes

- Domestic Production Activities Deduction (DPAD) increases from 6% to 9% of net manufacturing income in 2009
- 2009 is the final year of bonus depreciation as well as the increased Section 179 expensing limit of \$250,000 for fixed assets placed in service in 2009. In 2010, Section 179 limits will return to \$125,000 indexed for inflation.
- Due to state budget shortfalls that are causing much more aggressive state enforcement and collection efforts, an evaluation of state tax filing requirements may be necessary. This will also impact companies that are required to evaluate potential income tax liabilities in connection with FIN 48 financial statement compliance. Many states offer voluntary disclosure programs that can limit the prior years' tax returns that must be filed, and waive penalties and, in some cases, interest.

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- Plan for tax rate increases that are on the horizon. This may be a good opportunity to pay dividends or accelerate capital gains in the 2010 tax year.
- Take advantage of cost segregation or Section 179D studies that can accelerate depreciation for manufacturing facilities or provide faster payback opportunities for energy-efficient lighting, HVAC or building envelope improvements.

The current economy remains uncertain. Therefore, you must prepare for an eventual economic upturn. If you can drive operational improvements and garner greater efficiencies now, then you will effectively position your company for short-term survival and long-term success.

In these difficult times, reviewing strategic opportunities and taking advantage of available tax strategies may make your company more competitive. At Schneider Downs, we are available and interested to work with you to face the challenges ahead. Whether it's an informal phone call or performing a strategic options evaluation, we're prepared to help.

Please contact your Schneider Downs representative with any questions you have about strategic planning opportunities or tax planning strategies at 412.261.3644 or www.schneiderdowns.com.

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