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Tax Extenders Impact on the Manufacturing Industry

MANUFACTURING, TAX
BY

After months of speculation and delay on the "tax extenders" legislation, the Tax Increase Prevention Act of 2014 (HR 5771) was signed into law by President Obama on December 19, 2014. Both taxpayers and their advisors were eagerly awaiting the renewal of these tax provisions, since many have a significant impact on the tax burden of manufacturers and their owners.

Section 179 Expense

This legislation includes a provision to extend the increased Section 179 first-year expensing limit for assets placed in service in the taxpayer's 2014 tax year (which, for fiscal year filers, may include assets placed in service during some portion of 2015). The Section 179 expense limit was increased to $500,000 on eligible additions of up to $2,000,000. Had this legislation not been enacted, the limitations would have reverted to limits in place several years ago, with the maximum annual expense limit of $25,000 on $200,000 of eligible additions.

Bonus Depreciation

The extenders include a provision to extend 50% "bonus" depreciation on assets for which the original use is with the taxpayer (the property cannot be previously used). To qualify for bonus depreciation, the asset must be placed in service by December 31, 2014 and must have a depreciable life under the Modified Accelerated Cost Recovery System of 20 years or less. Prior to the legislation, this depreciation incentive was not available for assets placed in service after December 31, 2013.

Research and Development Tax Credit

The legislation includes a provision to extend the research and development credit to include amounts paid or incurred prior to December 31, 2014. The research and development credit can be calculated using one of two methods - the regular method or the alternative simplified method, and taxpayers may use whichever method is more favorable on an annual basis. Some states, including Pennsylvania, also have research credits available. The credits are generally available to taxpayers who perform research that is technological in nature, with a process of experimentation and testing to eliminate uncertainties.

Work Opportunity Tax Credit

HR 5771 includes an extension of the work opportunity tax credit (WOTC) for hiring certain workers (employees of targeted groups) prior to January 1, 2015. Prior to claiming a credit for the hire of a targeted employee, the employer must obtain certification that the individual is a member of a targeted group. The credit ranges from 25% to 40% of first-year wages paid before December 31, 2014. The IRS lists the target groups as follows: qualified IV-A recipient, qualified veteran, qualified ex-felon, designated community resident, vocational rehabilitation referral, summer youth employee, supplemental nutrition assistance program benefit recipient, SSI recipient, or long-term family assistance recipient.

Alternative Fuel Tax Credit

The legislation includes an extension of the alternative fuel tax credit, which is an incentive available for alternative fuels that are sold for use, or used as a fuel, to operate a motor vehicle (which includes forklifts/tow motors). The credit is available in the amount of 50 cents per gallon (or gallon equivalent) used by taxpayers in their business during the tax year ended December 31, 2014. This credit is eligible for several types of fuels, including liquefied petroleum gas, P series fuels, compressed or liquefied natural gas, liquefied hydrogen, any liquid fuel that is derived from coal produced at a gasification facility, and liquefied fuel derived from biomass.

The passage of HR 5771 extends these benefits retroactively for tax year 2014. These “extenders” expired on December 31, 2014, forcing Congress to address these once again for the 2015 tax year.

If you have any questions regarding the impact of HR 5771 on your business, please contact a member of Schneider Downs Tax Advisory Services.

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