January 14, 2016

Tax Extenders Impact on the Manufacturing Industry

MANUFACTURING, TAX
BY

After months of speculation and delay on the "tax extenders" legislation, the Protecting Americans from Tax Hikes Act of 2015 (PATH Act) was signed into law by President Obama on December 18, 2015. 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 permanently extend the increased Section 179 first-year expensing limit for assets placed in service during the tax year of the Company. 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 the limits in place several years ago, with the maximum annual expense limit of $25,000 on $200,000 of eligible additions. These amounts will be indexed annually for inflation.

BONUS DEPRECIATION

The Path Act includes a provision to extend bonus depreciation on assets for which the original use is with the taxpayer (the property cannot be previously used). There is a five-year phase-out with 50% bonus depreciation available in 2015, 2016, and 2017, 40% available in 2018, and 30% available in 2019. Under this legislation, bonus depreciation will phase-out completely for assets placed in service after December 31, 2019. To qualify for bonus depreciation, the asset must have a depreciable life under the Modified Accelerated Cost Recovery System of 20 years or less. Prior to this legislation, this depreciation incentive was not available for assets placed in service after December 31, 2014.

RESEARCH AND DEVELOPMENT TAX CREDIT

The legislation includes a provision to make permanent the research and development credit. 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.

Additionally the PATH Act allows eligible small business to apply research and development tax credits against both the regular tax and alternative minimum tax (previously the credits were not allowed against the alternative minimum tax). Also, qualified small businesses may elect to apply these credits against their OASDI tax liability.

WORK OPPORTUNITY TAX CREDIT

The PATH Act includes an extension of the work opportunity tax credit (WOTC) for hiring certain workers (employees of targeted groups) through December 31, 2019. 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, with a maximum credit of up to $6,000. 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, qualified supplemental nutrition assistance program benefit recipient, qualified SSI recipient, or long-term family assistance recipient. This credit has also been expanded to include the hiring of qualified long-term unemployment recipients (27 weeks or more) beginning work for the employer after December 31, 2015.

ALTERNATIVE FUEL TAX CREDIT

The PATH Act includes an extension to December 31, 2016 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. 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 enactment of the PATH Act makes these benefits retroactive to January 1, 2015 and provides certainty on these tax provisions (and many others), which should help facilitate more opportunities for planning, at least for the next few years.

If you have any questions regarding the impact of PATH Act on your business, please contact a member of Schneider Downs team. Visit the Schneider Downs tax blog to read other articles relating to the tax implications of the PATH Act.

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