FarmEquip.org

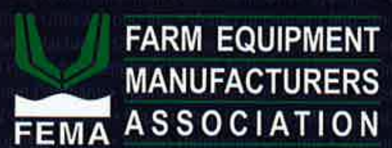
Ag Innovator

Official Magazine Of The Farm Equipment Manufacturers Association

Summer 2013

The Farm Equipment Manufacturers Association

Relevant And Relatable: Making Members' Needs A Top Priority



TAX INCENTIVES FOR FARM EQUIPMENT MANUFACTURERS

By Michael J. Devereux II

On January 2, 2013, President Obama signed the American Taxpayer Relief Act of 2012 (2012 Act), thereby retroactively averting the so-called "fiscal cliff" and extending many of the tax provisions and incentives farm equipment manufacturers rely upon to reduce their federal tax liabilities. The following provides a brief summary of the tax incentives the 2012 Act extended through 2013.

Research Tax Credits Extended & Modified

The 2012 Act retro-actively reinstates the research credit for expenditures incurred in calendar years 2012 and 2013. Prior to the 2012 Act, the credit was only eligible for expenditures incurred prior to December 31, 2011.

Depending upon the methodology elected by the taxpayer, the credit is equal to 14% (alternative simplified credit method) or 20% (traditional credit method) of the research expenditures in excess of a base amount. Eligible activities for farm equipment manufacturers may include:

- Developing new functionality or performance to meet customer specifications
- Experimenting with performance variables to improve manufacturing processes
- Developing new dies, jigs, fixturing, or tooling in order to manufacture a part
- Improving processes through robotics or other types of automation techniques
- Experimenting with new materials or alloys
- Performing first article inspections on new product designs

In addition to extending this popular tax incentive, Congress made two modifications to the credit. First, the 2012 Act clarifies the manner in which a taxpayer computes its qualified research expenditures in a tax year in which the taxpayer acquires a major portion separate unit of a trade or business that also incurred qualified research expenditures. Second, the 2012 Act changes the manner in which taxpayers, which are members of a controlled group of corporations or under common control, allocate the group's credit. Further, over 35 states have incentives for investing in qualified research activities and innovation. These benefits range from 1% of the research expenditures paid or incurred during the year to 40% of the research expenditures paid or incurred over a base amount. The state incentives are in addition to the Federal credit.

Work Opportunity Tax Credit Extended

Retro-active to January 1, 2012 and through December 31, 2013, the 2012 Act reinstates the Work Opportunity Tax Credit (WOTC). The WOTC allows taxpayers to claim a federal income tax credit equal to 40% of the first $6,000 wages paid to a member of a targeted group of employees. Targeted groups include:

- Veterans in a family receiving supplemental nutrition assistance, unemployed veterans, and service-related disabled veterans discharged from active duty
- Qualified ex-felons
- Families receiving benefits under the Temporary Assistance to Needy Families (TANF) program
- Designated community residents
- Vocational rehabilitation referrals
- Qualified food and nutrition recipients
- Qualified Supplemental Security Income (SSI) recipients
- Long-term family assistance recipients
- Qualified summer youth employees

Further, the WOTC is one of the few credits that may offset the Alternative Minimum Tax (AMT), making it particularly advantageous for taxpayers who are subject to the AMT.

Qualified Dividends Long-Term Capital Gains

The maximum long-term capital gains and qualified dividend tax rates will remain at 0%/15% for those with less than the $400,000/$450,000 income thresholds. The 2012 Act reinstates the long-term capital gain and qualified dividend rate at 20% for high-income taxpayers (those with income greater than $400,000/$450,000 as noted above).

While this provision seems to be more applicable to individual taxpayers, this provision has greater implications for manufacturers producing goods in the United States. By continuing to tie the qualified dividend rate to the long-term capital gain rate, the IC-DISC (Interest Charge — Domestic International Sales Corporation), remains a viable solution for privately held companies to permanently reduce its federal income taxes on exported products that were made in the United States.

Bonus Depreciation Extended For One Year

The 2012 Act extends the 50% bonus depreciation for assets placed in service prior to January 1, 2014, thereby extending the popular tax break for one calendar year. That is, taxpayers may claim an additional, "bonus" depreciation deduction equal to 50% of the basis of the new asset. The basis of the property and related depreciation deductions are adjusted accordingly for the year of purchase and later years in order to reflect the bonus depreciation allowance. The additional depreciation deduction is available for both regular tax and AMT purposes.

Assets eligible for bonus depreciation generally fall with the following categories: property to which the modified accelerated cost recovery system (MACRS) rules apply with a depreciable life of 20 years or less; qualified leasehold improvement property; and computer software that is not acquired in connection with the purchase of a trade or business. Further, the asset must be new, not used. That is, the original use commences with the taxpayer.

Enhanced Section 179 Expensing & Phase Out Limits Extended

Section 179 allows taxpayers to elect to expense the cost of qualifying property up to a specific limit. The maximum expense amount is reduced by the amount of qualifying property placed in service in excess of a threshold amount. Prior to the 2012 Act, the Section 179 limit was scheduled to revert back to $125,000 with a phase-out threshold beginning at $500,000 for tax years beginning in 2012, and $25,000 with a phase-out threshold beginning at $200,000 for tax years beginning in 2013 and thereafter. The changes are illustrated by the following table:

	Tax Years Beginning In 2012	Tax Years Beginning in 2013
Pre-2012 Act		
Section 179 Limit	$125,000	$25,000
Phase-out threshold	$500,000	$200,000
After Passage of 2012 Act		
Section 179 Limit	$500,000	$500,000
Phase-out threshold	$2,000,000	$2,000,000

Conclusion

Tax year 2013 has brought numerous changes to the tax law affecting farm equipment manufacturers. Taxpayers that plan for such changes now and in the future can increase the profit and value of their company. Further, tax incentives such as the research tax credit, work opportunity tax credit, and ICDISC should be evaluated to ensure farm equipment manufacturers are securing the benefits which Congress intended. AGI

Michael J. Devereux II, tax consultant, joined Mueller Prost PC in 2000. He has led hundreds of R&E Tax Credit study engagements and is lead coordinator for Mueller Prost PC's special tax incentives program. He will be hosting a webinar for Association members on August 21, 2013 at 11:00 a.m. CDT on opportunities to reduce federal and state tax liability. For more information, visit ***muellerprost.com*** *or call 314.862.2070.*

Career Opportunity with ALMACO!

International Sales Representative

Position Requirements:

- *Fluency in Spanish and Portuguese.*
- *Business to business in-country sales experience within Latin America and China.*
- *Experience in agricultural research or agricultural research field.*

Apply online at WWW.ALMACO.COM

ALMACO is located in Nevada, Iowa, and is the leading manufacturer of specialized agricultural equipment for the seed research industry.

ALMACO is an equal opportunity employer.