



Tips for Taxpayers: Think About 2015 Tax Planning Opportunities

The complexity and ever-evolving nature of the tax code is confounding to most taxpayers. But, savvy manufacturers and distributors always consider the positive ways the tax code can work for them. Here are some programs, incentives, deductions and credits that you may want to think about relative to tax planning for this year:

- **Think LIFO:**

For many years, the last-in-first-out (LIFO) inventory accounting method has been on the federal budget chopping block. Not any more. The most recent budget ignored LIFO, which means a LIFO conversion might be a safe bet if it makes sense for your business.

If you are a manufacturer with significant amounts of raw materials, work-in-progress and finished goods on hand, talk with your CPA about a LIFO conversion. In periods of rising costs, LIFO decreases the value of ending inventory when compared to the first-in-first-out (FIFO) method. Lower ending inventory value results in higher cost of goods sold, which in turn lowers taxable income.

- **Think IC-DISC:**

If your company exports its products — either directly or indirectly — consider an Interest Charge-Domestic International Sales Corporation, or IC-DISC. An IC-DISC is a tax-exempt domestic corporation, typically owned by the individual shareholders of the exporting company.

The exporting company pays the IC-DISC a commission on its exports — either 50 percent of export net income or 4 percent of qualified export gross receipts — and deducts this amount from ordinary income. When the IC-DISC pays dividends, the shareholders pay only the dividend income tax rate on those funds, with the net effect of up to a 16 percent tax savings on IC-DISC income.

- **Think green:**

The Section 179D deduction for energy efficient commercial buildings provides a meaningful savings opportunity for manufacturers and distributors. Under this statute, commercial property owners enjoy a significant incentive to install energy-efficient interior lighting, HVAC, building envelope and hot water systems that reduce a building's total power and energy cost by 50 percent or more.

Note that this deduction was extended only through 2014. But, it has been extended in the past and it's likely to be extended for 2015. We'll know for sure later this year.

- **Think R&D:**

The Research and Development tax credit allows taxpayers a credit for qualified research expenses over a base amount. The credit can be especially helpful to businesses that develop, design or improve products, manufacturing processes or software applications.

In its current state, eligible expenditures include those paid or incurred through December 31, 2014, but it has been extended countless times in the past. We anticipate Congress to retro-actively extend the credit later this year.

- **Think charity:**

For manufacturers and distributors in the food industry, there's an enhanced deduction for charitable contributions of food. C corps can take a charitable contribution deduction in excess of their cost basis for donated food inventory.

- **Think tax incentives:**

Many states and local municipalities are offering tax breaks to encourage business growth. If you're thinking about opening a new location, consider tax incentives that might be available for locating in a specific area.

- **Think repair regulations:**

The new, very complex tangible property repair regulations are now in effect. So, be sure you're talking with your CPA to verify you have made the appropriate elections, considered any changes in accounting method via Form 3115, and have avoided any pitfalls of the new regulations.

Manufacturers and distributors should pay special attention to proper tax treatment of repairs or improvements to tangible property, and consider possible deductions available for the disposition of assets lost or replaced during a renovation.

While the tax code can certainly be a source of frustration, it also offers a number of opportunities for planning. We encourage you to take advantage of every deduction, credit or incentive available to reduce your tax burden.

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We are committed to your success and we hope you find this information valuable. Contact [Michael J. Devereux II, CPA, CMP](#) or [Ross E. Hewitt III, CPA](#) today to discuss your specific situation.



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