

A nighttime landscape featuring a winding road with light trails from cars. The scene includes dark silhouettes of trees on the left, a rocky hillside in the background, and a stone bridge with arches on the right. The sky is a deep blue, and the overall atmosphere is serene and scenic.

Tax Policy, Credits,

& Incentives for the

Plastics Industry

WIPFLI



About Wipfli

Tax Policy & Incentives Group

WIPFLI

About Wipfli

Wipfli

- ▶ Top 20 CPA Firm
- ▶ Headquarters in Wisconsin
- ▶ 2,900 employees
- ▶ 45 North American offices
- ▶ Recent Merger

WIPFLI | Mueller Prost

Wipfli's Tax Incentives Group

- ▶ Practice in place for over two decades
- ▶ Almost 50 associates dedicated to R&D and other incentives
 - CPAs & Technical writers
 - Engineers
 - Former territory manager
- ▶ Work with 25+ CPA Firms

WIPFLI



Tax Policy

& Tax Legislation

WIPFLI

Recent Tax Legislation

Tax Cuts & Jobs Act of 2017

- ▶ Tax Rate Reduction
- ▶ Manufacturing benefits
- ▶ Methods of Accounting

CARES Act

- ▶ Employee Retention Tax Credit (ERC)
- ▶ Paycheck Protection Program (PPP)

Consolidated Appropriations Act of 2021

- ▶ Manufacturers may claim ERC & PPP
 - No double dipping
- ▶ Employee Retention Tax Credit

Pending Tax Legislation

Infrastructure Investment and Jobs Act (H.R. 3684)

- ▶ \$1 trillion bi-partisan bill
- ▶ Passed Senate, Waiting in House
- ▶ Terminate the ERC beginning October 1, 2021
- ▶ Cryptocurrency reporting

FY2022 Budget Resolution

- ▶ Senate approved
- ▶ \$3.5 trillion package under consideration
- ▶ Tax Amendments

FY2022 Budget Resolution

Tax Amendments (nonbinding)

- ▶ Stepped Up Basis: Thune amendment passed
- ▶ Expensing of R&D expenditures, Expanding R&D tax credit: Hassan & Young amendment passed
- ▶ No increase on income < \$400K: Young amendment passed
- ▶ Prohibit tax hikes on small businesses: Daines' amendment passed
 - SBA defines small businesses as < 500 employees
- ▶ Prohibit changes to tax treatment of §1031 exchanges
 - Current law allows for like-kind exchanges on real property

FY2022 Budget Resolution | Provisions Impacting U.S. Manufacturing

Potential Changes

- ▶ Corporate Tax Rate
 - Graduated rates – 18% to 26.5%
- ▶ Individual Income Tax Rates
 - Top rate 39.6%
- ▶ Capital gain rates
 - 25% post-9/13
 - M&A Activity
 - IC-DISC impact
 - Carried Interest
- ▶ Surtax of 3% on incomes over \$5,000,000

FY2022 Budget Resolution | Provisions Impacting U.S. Manufacturing

Potential Changes

- ▶ Deduct R&D; Expand R&D tax credit
 - Capitalization provision delayed until 2026
- ▶ Eliminate flow-through deduction
 - Eliminate §199A on income > \$500,000
- ▶ Flow-Through Entities
 - 3.8 percent Net Investment Income Tax: All sources of income over \$500,000 (including S Corporation income!!)
 - Make permanent loss limitation rules, capping business losses of flow through entities

FY2022 Budget Resolution | Provisions Impacting U.S. Manufacturing

Potential Changes

- ▶ Remove step-up in basis
 - Closely held businesses
- ▶ Reduce estate tax exemption
 - \$11.7 million to \$5 million
- ▶ International Tax Changes
 - 16.5625% GILTI rate
 - 20.7% FDII rate
- ▶ Repeals 1202 on income over \$400,000



Tax Credits

Tax Incentives

WIPFLI

Tax Credits & Incentives

R&D Tax Credit

- ▶ Development or improvement of business components
- ▶ Proprietary and custom development qualifies

Export Incentives

- ▶ IC-DISC & FDII

Hiring & Payroll Incentives

- ▶ Work Opportunity Tax Credits (WOTC)
- ▶ Employee Retention Tax Credit (ERC)

Plant & Equipment

- ▶ Cost segregation study
- ▶ Self-constructed assets
- ▶ Energy Efficient Building Deduction



Research &

Development Tax Credit

WIPFLI

Qualified Research Activities

New or improved business component

- ▶ Development of a new or improved business component
 - Includes: Product, Process, Technique, Formula, Invention, or Computer Software

Technological in nature

- ▶ Relies on the principles of the hard sciences (physics, chemistry, biology, engineering, or computer science, etc.)

Deductible under Sec. 174 (eliminate uncertainty)

- ▶ Capability – Can we do it?
- ▶ Methodology – How do we do it?
- ▶ Appropriate Design – What is the best design to meet our objectives?

Process of experimentation

- ▶ Formal or informal, evaluation of alternatives, systematic trial and error

Examples of Qualified Activities - Processors

- Developing new tool designs
- Developing new functionality or performance to meet customer specifications
- Experimenting with performance variables to improve manufacturing processes
 - Cycle time
 - Scrap reduction
- Developing new tool-specific fixturing or processes
- Improving processes through robotics or other types of automation techniques
- Experimenting with new resins or other materials
- Trialing / Sampling / Qualification of new tools and processes
- Testing new tool designs through sampling or trials

Qualified Research Expenditures

- Qualified wages
 - ▶ Direct research
 - ▶ Direct supervision
 - ▶ Direct support
- Contract research expenses
- Supplies
- Computer lease time

Planning Opportunities

- Pilot model rules
 - ▶ Definition of a prototype and/or pilot model
 - Irrelevant whether results of research are scrapped, sold to customer, or used in taxpayer's business
 - Discrete manufacturing opportunity – many sell initial batch
 - ▶ Self-constructed assets
 - Process Development
 - Design and development of self-constructed machinery & Equipment

Documentation Requirements

- No specific documentation requirement exists in the code or regulations
- Must retain records in “sufficiently usable form and detail to substantiate that expenditures are eligible for the credit”
- Failure to keep records in any particular manner cannot serve as a basis for denying the credit
- Case law supports the use of estimates when underlying documentation supports those estimates
- Records must do the following:
 - ▶ Prove or help to prove the projects qualify
 - ▶ Connect the employees involved directly or indirectly to the project




Export

Incentives

WIPFLI

Export Incentives

- Interest Charge – Domestic International Sales Corporation (IC-DISC)
 - ▶ Permanent tax savings for privately held businesses
 - S Corporations (29.6% vs. 23.8%)
 - C Corporations
 - ▶ IRC §250: Foreign-derived intangible income (FDII)
 - 37.5% deduction
 - C Corporations only



Hiring & Payroll

Incentives

WIPFLI

Work Opportunity Tax Credit

- Up to \$9,600 Federal tax credit for each eligible to hire
- Percentage of eligible employee wages (must work 120 hours)
- May not double dip with the Employee Retention Credit
- Targeted Groups
 - ▶ Eligible veterans
 - ▶ SNAP (food stamp) recipients
 - ▶ TANF recipients
 - ▶ Qualified long-term unemployment recipients
 - ▶ Designated community residents
 - ▶ Vocational rehabilitation referrals
 - ▶ Ex-felons
 - ▶ SSI recipients
 - ▶ Summer youth

Employee Retention Credit

CARES Act

- Wages paid to employees from March 13, 2020 through December 31, 2020
- Includes healthcare
- 50% credit on first \$10,000 of wages (\$5,000 maximum for all three quarters)
- Criteria:
 - ▶ Fully or partially suspended to due covid-related government orders
 - ▶ Experienced a more than 50% decline in gross receipts for the same calendar quarter in 2019
- No PPP & ERC
- Refundable employment tax credit

Employee Retention Credit

Consolidated Appropriations Act, 2021

- Extended & Expanded the ERC
- Taxpayers may utilize the PPP and claim the ERC
 - ▶ No double dipping
 - ▶ Forgiven PPP loans deductible
- Extended credit through June 30, 2021
- 70% credit on first \$10,000 of wages PER QUARTER
 - ▶ \$7,000 tax credit per employee per quarter
 - ▶ Maximum credit of \$14,000 for Q1 & Q2 of 2021
- Criteria:
 - ▶ Fully or partially suspended to due covid-related government orders
 - ▶ Experienced a more than 20% decline in gross receipts for the same calendar quarter in 2019

Employee Retention Credit

American Rescue Plan of 2021

- Extended the credit through December 31, 2021
- 70% credit on first \$10,000 of wages PER QUARTER
 - ▶ \$7,000 tax credit per employee per quarter
 - ▶ Maximum credit of \$28,000 for all of 2021
- Criteria:
 - ▶ Fully or partially suspended to due covid-related government orders
 - ▶ Experienced a more than 20% decline in gross receipts for the same calendar quarter in 2019



Plant &

Equipment

WIPFLI

Manufacturing Plant & Equipment

- Cost Segregation Study
 - ▶ Bonus depreciation and the definition of Qualified Improvement Property made this extremely powerful
- Energy Efficient Building Deduction
 - ▶ Lighting, HVAC or Building Envelope
 - ▶ As much as \$1.80 per square foot
- Self-Constructed Assets
 - ▶ Process Research & Development
 - ▶ Design & Development of equipment & processes – IRC 174(a)



Questions??

WIPFLI

For More Information, Contact Mike Devereux:



Michael J. Devereux II, CPA, CMP

Partner

Mike.devereux@wipfli.com

Direct line: (314) 480-1223

Mobile: (314) 406-8773

WIPFLI