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JULY 2008 BULLETIN - TAXES

“BEYOND THE ECONOMIC STIMULUS ACT OF 2008 FOR MANUFACTURERS”

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The Economic Stimulus Act of 2008, recently introduced by Congress, will not only allow rebates for individual tax payers, but will also create additional incentives for commercial businesses including manufacturers. Previously, bonus depreciation was introduced as a way to help increase cash flow and stimulate the economy during economic downturns.

The bill gives manufacturers a 50 percent bonus deduction on new equipment and increases the limit on expenses that small businesses can deduct from annual income to \$250,000, raising it from \$125,000.

The result is an increased depreciation deduction which can lower a company's tax liability. The increased cash flow is placed back into the economy through increased investment into the business, and helps create additional jobs.

Can all manufacturers benefit?

Only those that are considering expanding a plant or making investments in equipment can benefit from the stimulus package giving them help "from a cash flow standpoint" in paying for it. But if your company is not looking into expansion or new equipment then the economic stimulus package does little for you.

Put Cash in the bank with interest in 90 days

What if you could get cash back with interest from the IRS within 90 days, would

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that help? What if that extra cash back ranged from the tens of thousands to the millions? Would that extra cash give you the opportunity to make an investment in equipment or expansion and take advantage of that bonus depreciation? Or could you use the extra cash for other purposes to help your company?

How is this possible?

Most manufacturing firms are missing out on 5, 6 or 7 figure manufacturing credits. The existing R&D Tax Credit is overlooked because most manufacturers do not understand that their every day activities already qualify for the credits. And in most cases, neither does your CPA understand because it requires very specialized knowledge and that's why they have never approached you. It takes a team of specialized tax engineers and IP attorneys to understand which activities qualify and to create the documentation to substantiate those qualifying activities.

Why do you get cash back?

The IRS recently changed the rules allowing companies to go back 3 years and take the credits they missed. Ninety days after submitting amended returns, you will get cash back with interest. And of course you can take credits for current and future years if you continue to perform similar activities.

Should my company take a look at this?

By the very nature of your business, all manufacturing firms have qualifying activities. The question is can you actually use them. To help, if you can answer yes to all of these items, then you definitely need to have an R&D Tax Consulting firm provide you with a free estimate of your tax credits.

- 1) Were you profitable in 2004, 2005, 2006 and/or 2007?
- 2) Is the total cumulative payroll for 2005, 2006 and 2007 in excess of \$7.5 million dollars?
- 3) Is the company structure a C Corp? If so, you are OK. If an S Corp or partnership, do you have 5 or fewer shareholders? If so, you are OK.

If you answered yes to those 3 items, then you have an excellent possibility of having a high 5 figure credit and into the 6 or 7 figure credits for manufacturers with higher wage totals. The R&D Tax Credit is a wage based credit so the higher your total wages, the higher your credits. Think about what your company can do with the extra cash in about 90 days.

- [Summit Risk Management Seminar - Southern Utah](#)

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