

SECTION 199 DEDUCTION CASE STUDY

CLIENT OVERVIEW

Our client is a construction company that specializes in steel erection with projects located throughout the United States. They also lease cranes and other erection equipment when they aren't utilizing the equipment themselves. The company has annual revenues of approximately \$40 million. They were incorporated in 1971 and are currently operating as an S Corporation.

THE SITUATION

In prior years' planning meetings, we had discussed the possibility of utilizing the Domestic Production Activities Deduction (DPAD) with the client, but each year they did not feel they had jobs that would qualify. In 2011, after discussing a few of the jobs that they worked on that year, we brought up the subject of the DPAD again. This time, they felt that their job mix had jobs that qualified.



THE SOLUTION

As we prepared the client's income tax returns, we worked closely with their project managers and accounting staff to identify jobs that would qualify for the deduction. We provided the client with a detailed listing of the information needed to document the deduction and they compiled the necessary information. As we worked through the process, it turned out that they had many more qualifying jobs than they initially thought. In 2011, the client qualified for an approximately \$162,000 deduction that was passed through to the shareholders and resulted in approximately \$65,000 of permanent tax savings.

TAX SAVINGS

2011 Qualified Production Activities Income	\$1,800,000
Applicable Deduction Rate	9%
2011 Domestic Production Activities Deduction	\$ 162,000
Federal and state tax rate	40%
Permanent tax savings	\$ 64,800

Now that the client understands the specifics of how to identify qualifying activities, we anticipate the client continuing to qualify for the deduction and the deduction increasing annually as the company grows.