

Federal & NYS Income Tax Incentives

Presented by
Kate Welc, CPA
Principal



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We want in!

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- MMB is the sponsoring partner of the NYS Brewer's Association representing the accounting industry.
- 100 professionals, 3 offices – Rochester, Canandaigua, and Elmira
- Focused on assurance and tax, as well as providing bookkeeping and support for accounting systems (Quickbooks, etc)
- The growth of the industry and the opportunities and incentives get us excited!



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Power!!!

- Study -Economic Impact of Craft Beer on the NY Economy, 2013 – prepared April 2015
 - \$3.5 Billion Full Impact
 - 11,366 Full Time Jobs
 - \$554 million Wages paid
 - \$204 million in Federal Taxes and \$748 million in state and local taxes



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Domestic Production Activities Deduction (DPAD)

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- Since you are manufacturing something on U.S. soil and paying wages you are entitled to this deduction.
 - Yes, making beer is manufacturing!!!
- Deduction is lesser of 9% of (1) taxable income or (2) qualified production activities income
- Does not apply to non-production income
 - (i.e. food sales, t-shirt sales)
- Deduction cannot exceed 50% of W-2 wages



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FICA Tip Credit

- Must have tipped employees.
- Reported tips are subject to FICA (aka Social Security tax).
- You, as the employer must match this FICA amount.
- Credit = the amount of FICA paid by the employer on tips, provided the tips were not used to meet the minimum wage rate.



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FICA Tip Credit

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It can add up!!!!

Pay at Minimum Wage of \$6.80/hr =
\$136

Example:

All Tips are eligible for the credit!

Employee earned:

Tips \$180

$\$180 \times 7.65\% = \13.77

Wages \$136

Total \$316

That's just one week, one year =
\$700

Worked 20 hours



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FICA Tip Credit

- Almost all payroll processing companies provide a report that your accountant will use to calculate the credit (so no extra work for you!)
- Credit is reported on Form 8846 on your annual income tax return.



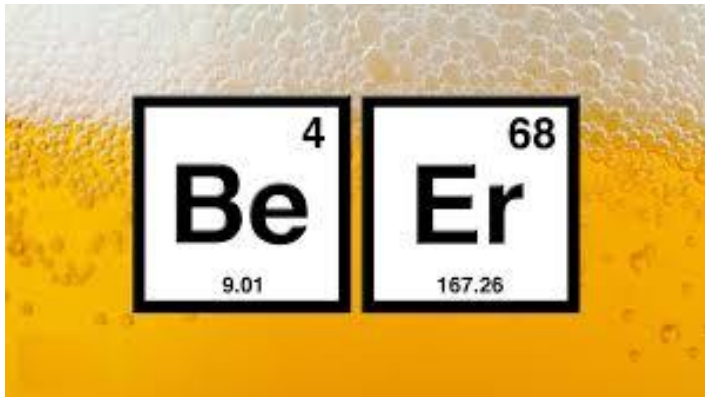
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Federal Research and Development Tax Credit

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- Permanently extended with the 2015 Path Act.
- Qualifying R&D activities are pervasive in your industry, but many companies fail to claim the credits they are entitled to!



- IRS has a four-part test that must be met.



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Federal R&D Credit: Four-part test

- (1) Elimination of uncertainty: demonstrate that you've attempted to eliminate uncertainty about the development or improvement of a product or process
- (2) Process of experimentation: demonstrate through trial & error that alternatives have been evaluated in achieving the desired result
- (3) Technological in nature: must rely on hard sciences – engineering, chemistry, etc.
- (4) Qualified purpose: create a new or improved product or process, which results in increased performance, function, reliability or quality.



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Federal R&D Credit: Eligible Expenses and Documentation

- Wages (as reported on Form W-2, Box 1)
- Supplies used in the research process
- Contractor expenses (3rd party) that would be eligible if the same services were performed in-house – 65% are eligible
- The importance of documentation cannot be overemphasized!



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Federal R&D Credit: Examples of qualifying activities

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Testing & development of new or improved:

- Hopping Techniques
- Ingredient Mixing Methodologies
- Product Formulations
- Product Ingredient Mixtures for desired flavor or aroma
- Fermentation Process
 - Filtration Methodologies
- Developing methods for the utilization of spent grains including conversion to energy.



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Federal R&D Credit: Examples of qualifying activities

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Testing & development of new or improved:

- Water Recycling or Waste Management Processes
- Bottling or Canning Processes
- Bottle or Can Designs
- Keg Filling or Treatment Techniques
- Preservation chemicals
- Products to ensure consistency or shelf-life



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Federal R&D Credit: Examples of qualifying activities

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- Examples:
 - Creation of a Session IPA to lower the alcohol content
 - Development of Gluten Free Beer
 - Infusion of fruit into Beer – i.e. Grapefruit
 - Canning innovation
 - Resealable caps
 - Nitrogenated beer in cans



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Federal R&D Credit: How much is the credit?

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Alternative Simplified Method = 14% of the current year R&D expenses that exceed 50% of the average R&D expenses for the three preceding tax years.



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Federal R&D Credit: Alternative Simplified Method Example

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Current year R&D expenses = \$40,000

Average R&D expenses for past three years = \$5,000

Current year expenses	\$40,000
Less: \$5,000 x 50% =	<u>(2,500)</u>
Current year eligible expenses	\$37,500

Credit for current year (14%) = \$5,250



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Equipment

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Can I Write it Off?

In the words of Kramer: "They write it all off, Jerry."

Seinfeld: "You don't even know what a write off is."

Kramer: " Well they do and they're the one's writing it off."



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Depreciation: Section 179

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- Allows for expensing the cost of qualifying property in the year of acquisition.
- Limited to taxable income – cannot use with a loss
- Eligible property includes: equipment and other tangible property used in a business
 - computers, “off-the-shelf” software, office furniture and manufacturing equipment.
- Limit is \$500,000 permanently thanks to the 2015 PATH Act.



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Bonus Depreciation

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- Extended through 2019
- Through 2017, 50% bonus depreciation is allowed on tangible personal property. It is allowed at 40% in 2018 and 30% in 2019.
- Only allowed on new or “original use property.”
- Can use with a loss!
- NYS has always disallowed bonus depreciation.



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New Federal Rules Relating to Depreciation, Capitalization and Repairs and Maintenance

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- New De Minimis Safe Harbor for capitalization of tangible personal property.
- Can expense the costs of tangible personal property that have a cost of \$2,500 or less if there are no audited financial statements.
- The \$2,500 threshold is determined on a per item or per invoice basis.
- Annual election on tax returns.



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NYS Investment Tax Credit

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- Tax credit for tangible personal property and buildings and structural components used principally for producing goods in manufacturing.
- Credit is 5% of the cost (4% for S-Corporation shareholders) and 9% for R&D property.
- Credit is non-refundable, can be carried forward for 15 tax years (10 years for shareholders in an S-Corporation)



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Green Energy Tax Incentives: Business Energy Investment Tax Credit

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- Credit = 30% for expenditures for solar energy property, fuel cells, and wind turbines.
- Credit = 10% for geothermal systems, micro-turbines, and combined heat and power systems.
- 50% basis reduction is required.



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Federal Work Opportunity Tax Credit

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- Credit for hiring workers in 9 categories.
- Examples include qualified veterans, qualified recipients of SSI, and at-risk youth.
- If employee works over 400 hours during the year, credit is \$2,400. Partial credit of \$1,500 is available if under 400 hours.
- Has been extended through 2019.



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Federal Work Opportunity Tax Credit

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- IRS Form 8850 must be completed by employer on or before hiring date and must be sent to the NYS Department of Labor within 28 days of hire date.
- NYS Department of Labor will certify that employee qualifies for the credit and send confirmation to taxpayer.



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NYS Income Tax Incentives: Beer Production Credit

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- Refundable credit if your business is a registered distributor under Article 18 of the Tax Law and produces 60 million or fewer gallons of beer in NYS in the tax year.
- Credit is 14 cents per gallon for the first 500,000 gallons produced in NYS during the year, plus
- 4.5 cents per gallon for each additional gallon over 500,000 (up to 15,000,000 additional gallons) produced in NYS.



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Questions?

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