



Dbriefs U

Supplemental Material

Business Tax Credits — Carrot or Stick?

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About the Supplemental Material

Each Dbriefs U webcast is accompanied by teaching material including discussion or homework questions, a learning activity, and related resources. Visit the Dbriefs U Faculty Resources Web site to download this material. For access to the site and more information, contact dbriefsu@deloitte.com.

To request the solutions for this material, email dbriefsu@deloitte.com.

Discussion/Homework Questions

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1. Why are business tax credits growing in popularity in today's business environment?
2. What general utilization limitations exist once the amount of the applicable credit for any taxable year has been determined?
3. Identify 3 applicable federal or state tax credits under the following categories: (1) Location, (2) Eligible Investment, and (3) Workforce/job creation. Describe generally how the tax credit is determined and the public policy objective for each incentive.

Activity

To request the solutions for this material, email dbriefsu@deloitte.com.

Overview

Case Study: Business Expansion

Length: 40-60 minutes

Type: Individual or team activity

Materials: Activity sheet, IRS forms and publications, and solution

Learning Objectives:

- Identify and understand applicable tax credits and incentives
- Understand the basics of computing eligible credits and incentives
- Understand competing incentives and limitations on utilization of credits and incentives

Activity: Presented with a set of facts about a company that expanded its manufacturing facility, the student will identify and compute applicable credits and incentives available for the business expansion, and evaluate the company's alternatives for utilizing the various incentives.

Activity

Case Study: Business Expansion

Assume that your client expanded an existing manufacturing facility in New Orleans, LA. The expansion was completed and new employees hired in January 2008. You are preparing the client's 2008 tax return.

The new building cost \$6.3 million as follows:

\$5,000,000 Building Improvements (39-year nonresidential real MACRS property)
300,000 Solar Panel Roofing (39-year nonresidential real MACRS property)
1,000,000 Machinery and Equipment (5-year MACRS property)
\$6,300,000 Total Cost

In addition, your client obtained an allocation of \$5 million from a community revitalization agency authorized by the state of Louisiana to designate expenditures as qualifying for the Commercial Revitalization Deduction under section 1400I of the Internal Revenue Code (IRC).

The company hired 100 additional full-time employees to work at the facility. The average employee earned \$25,000/yr. Your client has informed you that 95 of its new employees' main homes are within New Orleans. Both their homes and the location of the manufacturing facility are located in a designated Renewal Community under IRC section 1400E. The company hired 5 of the 100 new employees from a targeted pool of applicants certified by the state employment security agency as veterans, high-risk youth, SSI recipients, and/or ex-felons.

Your client had taxable income of \$2,500,000 for its tax year ended December 31, 2008, net of wages for the new employees but before depreciation of the new building and machinery. Assume that the only credits available to the company are those you identify related to the business expansion. The Federal tax rate is 35%.

Read through the summary of Federal tax credits and incentives outlined in IRS Publications 954 and 4492 and IRS Forms 3800, 3468, 5884, 5884-A, and then (1) identify applicable Federal tax credits and incentives available for the business expansion, (2) compute the amount of the tax credits and special deductions to which your client is entitled, and (3) evaluate the client's alternatives for utilizing the various incentives given their limitations.

Related Resources

To access these materials, visit www.deloitte.com/us/dbriefsu.

Disaster Tax Relief: Congress and the IRS Provide Help for Victims (Deloitte publication)

Internal Revenue Service, Publication 4492, Information for Taxpayers Affected by Hurricanes Katrina, Rita, and Wilma, January 2006

Internal Revenue Service, General Business Credits (Web site)

Internal Revenue Service, Publication 954, Tax Incentives for Distressed Communities, January 2004

Federal Tax Incentives for Solar Energy, Solar Energy Industries Association (SEIA)

Webcast Poll Questions

To request the solutions for this material, email dbriefsu@deloitte.com.

Question

One of the community's largest employers recently relocated its operations to another state, leaving several hundreds of skilled workers unemployed in the area. Which of the following types of credits are most likely to be considered to remedy the unemployment situation?

- Location
- Eligible investment
- Workforce/job creation
- Location and workforce/job creation

Question

The government grants a non-refundable credit equal to 25% of qualified investment property purchased during the year. XYZ Co. bought \$400 of qualified property during 2008. XYZ Co. has \$75 in taxable income before consideration of tax credits. The tax rate in effect for 2008 is 20%. How much of a credit can XYZ Co. claim on its 2008 tax return?

- \$0
- \$15
- \$75
- \$100

Question

Which of the following factors would be the most likely to attract you to pursue a career involving tax credits and incentives?

- Compensation and job benefits
- Impact of my work on society
- Ability to influence business decisions
- Variety of opportunities and career paths
- All of the above

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