



Treasury and IRS Issue Guidelines on Deduction for Manufacturing Income

January 20, 2005

On Tuesday, January 19, 2005, the U.S. Treasury Department and Internal Revenue Service issued interim guidance to help taxpayers calculate the new deduction for income from domestic manufacturing activities created through the recently enacted American Jobs Creation Act (JOBS).

Effective the first day of 2005, JOBS entitles manufacturers to a tax deduction for a portion of income from domestic production activities, limited to 50% of wages.

Component Manufacturer Impacts:

The deduction applies to Subchapter C corporations, S corporations, sole proprietorships, partnerships, cooperatives, and estates and trusts.

- The deduction amounts to 3% of income in 2005 and gradually increases to 9% of income by 2010.

The activities eligible for the deduction include the manufacture of personal property including *construction, and engineering and architectural services*.

- Qualifying activities include construction and substantial renovation of real property, including residential and commercial buildings and infrastructure such as roads, power lines, water systems, and communications facilities.
- The statute does not provide that qualifying gross receipts for construction activities must be derived from a lease, rental, license, sale, exchange, or other disposition of the property.
- As a result, a taxpayer engaged in construction activities may qualify for the deduction even if the taxpayer does not have the benefits and burdens of ownership of the property being constructed.
- For example, a general contractor (or subcontractor) and a truss manufacturer are engaged in construction activities with respect to the installation of a roof using roof trusses on a new building. Each taxpayer's benefit will be a percentage of its profit on its work with respect to the installation of that roof.

Additional Background:

The guidance, issued yesterday in the form of a U.S. Treasury Notice 2005-14, includes comprehensive rules and definitions on the new deduction. Treasury officials said they plan to issue proposed regulations incorporating the rules in this Notice. A fact sheet created by the U.S. Treasury, giving additional background and detail of the new deduction, is also attached. A copy of Notice 2005-14 is available as a .pdf document on the U.S. Treasury website here:

<http://www.ustreas.gov/press/releases/reports/notice200514js2200.pdf>.