

Manufacturing Webinar Series

June 19, 2013

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WebEx Introduction

Moving around

- Lines may be muted upon entry.
- Should the audio disconnect, view the event info tab.
- If you connected via phone: We will unmute the lines for questions at the end.

CPE

- In order to receive CPE you must remain connected throughout the webinar and participate in the polling questions and evaluation.

We value your opinion

- An evaluation survey will pop up in separate window upon closing out of the webinar.

Technical difficulties

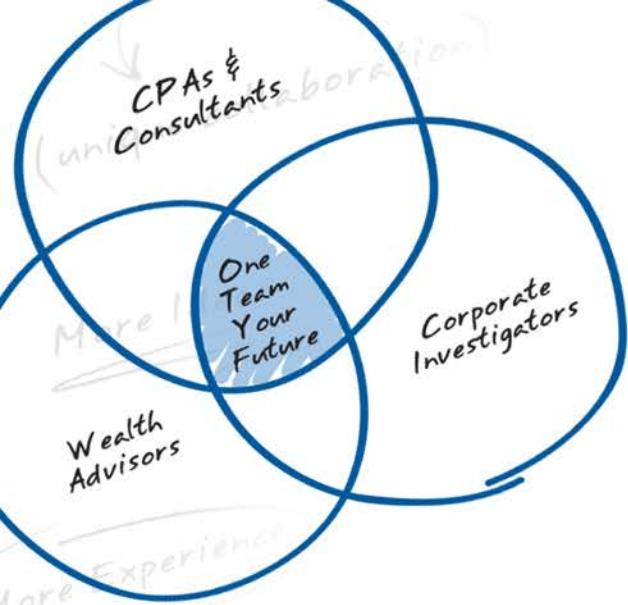
- Please contact holly.shier@rehmann.com or call WebEx at: 866.229.3239 or 1.408.435.7088 for international assistance.

The screenshot shows a Cisco WebEx Event Center window titled "Changes Impacting Financial Institutions". The main content area displays a presentation slide with a Venn diagram. The Venn diagram has three overlapping circles labeled "CPAs & Consultants", "Wealth Advisors", and "Corporate Investigators", with the intersection labeled "One Team Your Future". The slide also features the NEXIA INTERNATIONAL logo and the Rehmann logo with the tagline "Business wisdom delivered.". The text "Thank you for joining us today." is written in red cursive. The interface includes a menu bar (File, Edit, Share, View, Communicate, Participant, Event, Help), a toolbar with various icons, a chat box on the right, a recorder, and a Q&A section. A "View" menu is open, showing options: Show Thumbnail, Rotate Page Left, Rotate Page Right, and Sync Display for All. The status bar at the bottom shows "Cisco Webex Recording... Event number: 600 707 728" and "Connected" with a Cisco logo.

This session may be recorded.

If voice and video are not synced, click "View" and "Sync Display."

To ask a question, use the chat box and choose "all panelists" or use the Q&A if available.



Cost Segregation: Antidote to Tax Increases?

Presented by:

Matt Grigsby, CPA, MST



Matt Grigsby, CPA, MST



Principal

- Director of the tax department in the Traverse City office
- Director of Rehmann's cost segregation services since 2001

Tax Issues Facing Manufacturers

- Economy rebounding, profits are up
- 2013 individual income tax rates increased
 - Top marginal rate is 39.6%, up from 35%
- 2013 Medicare surtax tax of 0.9% on wages and self-employment income
 - Applies to wages and s-e income in excess of \$250,000 for MFJ taxpayers
- 2013 Net Investment Income Tax of 3.8% on interest, dividends and *rents*
 - Lesser of 3.8% on NII or MAGI in excess of \$250,000 for MFJ taxpayers

What is Cost Segregation?

- Comprehensive analysis of construction costs that identifies and quantifies personal property and land improvements that are eligible for faster depreciation
 - Take full advantage of allowable short-term depreciation
 - Reclassification of property from 39 year depreciation schedule to 15, 7 and 5 year depreciation schedules
 - Results in increased cash-flow

How Is Cost Segregation Done?

Review construction drawings & cost information

Document all costs & identify personal property & land improvements

Prepare detailed report

Inspect facility

Assign appropriate depreciation periods

How is Cost Segregation Done?

- New construction vs. Purchased
 - New facilities
 - Based on construction cost information
 - Purchased facilities
 - Based on FMV at time of purchase
 - Use of appraiser / engineer
 - Blueprints helpful, but not necessary
 - Land allocation

Polling Question #1

- For how many years did the Great Pyramid of Giza stand as the world's tallest man-made structure:
 - a) 5,200 years
 - b) 3,800 years
 - c) 1,200 years

How is Cost Segregation Done?

- Engineering vs. Accounting

- Engineering

- Thorough analysis of cost data including contractor's applications for payment and change orders, owner-incurred costs and indirect costs
 - Thorough analysis of architectural drawings and engineering drawings and project cost specifications
 - Identify and quantify all construction costs using actual cost data or cost estimating procedures
 - Method preferred by IRS

- Accounting

- Thorough analysis of cost data alone

What Can You Expect?

	Office Buildings	Light Manufact. Property	Heavy Manufact. Buildings
5-year Property	1-4%	2-5%	2-5%
7-year Property	8-11%	25-28%	50-53%
15-year Property	8-11%	10-13%	15-18%
39-year Property	83-74%	63-54%	33-24%

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Dealing with Cost Seg. Results

- Depends on when property placed in service
 - Newly placed in service
 - Incorporate into current year tax return – report additions on Form 4562
 - Previously placed in service
 - Prepare Form 3115 or, if only one year old, amend prior year tax return
 - With Form 3115, deduct all prior missed depreciation in current year

Polling Question #2

- Which building has the fastest elevators in the world?
 - a) Burj Khalifa in Dubai, UAE
 - b) Petronas Towers in Kuala Lumpur, Malaysia
 - c) Taipei 101 in Taipei, Taiwan

Cost Segregation Pitfalls

- Insufficient income / passive loss limitations
- Short-term holding period
- Purchase agreement contains price allocation
- Tax-exempt bond financing
- Governmental or non-profit tenants

Disclosure Under Treasury Circular 230

- The United States Federal tax advice, if any, contained in this document and its attachments may not be used or referred to in the promoting, marketing, or recommending of any entity, investment plan, or arrangement, nor is such advice intended or written to be used, and may not be used, by a taxpayer for the purpose of avoiding Federal tax penalties.

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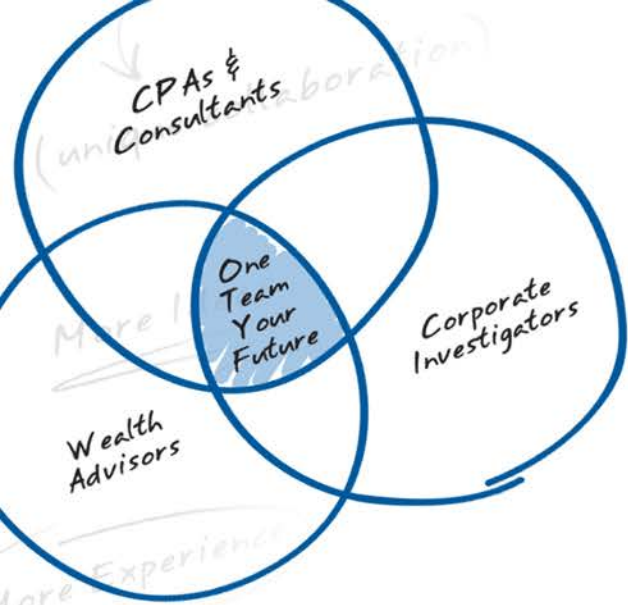
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QUESTIONS?



State Tax Issues in the Manufacturing World

Presented by:

Cathy Lambert, CPA



Cathy Lambert, CPA



Principal

- Principal of Rehmann's State and Local Tax Compliance
- Specialize in all areas of state and local tax including, income, franchise and sales tax



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- Use Tax
 - What is it
 - Why it is important to you as a manufacturer
 - How does the industrial processing exemption work
- New Personal Property Tax Statute
 - How will this help us
 - Important Vote in 2014

Use Tax - What is It?

- It is a tax on items purchased where sales tax is not charged
- Self-reporting rules
- Contrary to popular belief Manufacturers do have use tax obligations
- Everything is not exempt for industrial processing

Use Tax - Why Should You Care?

1

Many states including Michigan are becoming very aggressive in this area.

2

The state targets this area because, they almost always find money. Usually fairly easy for them to find.

3

Can you ever over pay and do you get your money back?

Polling Question #3

- An industrial processor never is subject to use tax
 - a) True
 - b) False

Industrial Processing Exemptions

- The items that are exempt begins from the **first** movement of raw materials and **ends** after it moves from off the finished good areas. Items at the beginning or end are taxable.
- Items that not used in industrial processing such as cleaning supplies, office supplies, etc. are also taxable
- To add to the confusion, some items get bifurcated treatment

Industrial Processing Exemptions

Although many taxpayers have gone to court to help determine what industrial processing is and what it is not, it is still very confusing

100 page guideline for auditors

25 page Revenue Administrative Bulletin

Inconsistent treatment between auditors and regions

Areas of Concerns

- Packing materials vs. dunnage
- Cleaning supplies vs. lubricants for machines
 - Maintenance on machines vs. cleaning
- Utilities
 - Warehouse, raw materials, down time
- Computers
- Plant tours
 - Huge automated packing table

Polling Question #4

- In order to received CPE credit for today's event, please confirm you are still here.
 - a) Still here
 - b) I don't need a CPE certificate

Personal Property Tax

- Beginning in 2014, all property exempt if taxable value less than \$40,000
 - How will you know?
 - Do you need to track every year?
- Beginning in 2015, industrial personal property begins to be phased out over a 10-year period
 - Provided vote in 2014 to fund municipalities is passed

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Next Webinar: July 24, 2013

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**Innovating Your Way to Tax Credits with Research
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**True North: Finding Your Financial Way with
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