

§199 Domestic Production Deduction

Urish Popeck's significant experience with ETI and IC DISC provides a valuable foundation for our services to maximize allowable §199 deductions. We have a highly refined 1.861-8 playbook.

www.urishpopeck.com



Highlights of §199 Practice

- Tax benefits gained by UP clients with these services (since 2007) > \$120,000,000
- Work in concert (or behind scene) with existing tax advisor; we can be invisible
- Fortune 500 experience in wide variety of industries
- Benefit estimate in advance of engagement
- History With “Quantitative Tax Regimes”
- Technical Expertise – Finding The Benefits The Big 4 Miss
- Issue-Specific IRS Exam And Appeals Expertise
- Ability to “Dial In” On Critical Data
- Efficient and Flexible, Project-Driven Culture
- Seasoned Team – Legal, Big 4, & Fortune 100
- Non-invasive data gathering process – All types/amounts readily accepted and optimized

The skill sets and successes we have experienced with §199, and prior to that ETI, are applicable to optimizing both §199 and IC-DISC opportunities. Following is a summation of our approach to §199 and a benefit example, followed by a summary of the IC-DISC.

The Opportunity

Quantifying the potential opportunity is fairly simple. When QPAI is **less than** adjusted taxable income the difference between these attributes (the spread) multiplied by the applicable rate quickly measures the potential increase in the allowable deduction in a given year. If the taxable income limitation is applicable there is no value to optimizing QPAI. The multiplier effect (3-open years plus the current computation) will often influence clients to file amended returns even though the spread and related tax benefit may not be significant in any one year.

This measurement exercise can be accomplished with very little effort or time. Given the Service's increased focus on the application of the consistency rule, within the expense sourcing regulations across multiple statutes, a project of this nature will often lead to the integration of overlapping statutes like the FCTL, depletion and export incentives. A redetermination requires access to a complete federal income tax return, a thorough understanding of the revenue channels and related costs within a company, and the intercompany flow of product and expenses to assure the proper measurement of taxable income within the statutory and residual groupings.

Our Approach

There are numerous reasons why we continue to have success in this space. Companies and service providers (including the largest firms) typically established a computational process at the outset of the §199 era, and have done little to adjust their processes, even though the operations may have changed significantly and the rules have evolved.

We often see this when benefit expectations are being met and there are limited internal resources to revisit or challenge the results. We also find that many taxpayers are relying on process rather than analysis when determining their benefit.

(continued on reverse)

URISH POPECK & CO., LLC

Accountants and Consultants

There is no single reason why our clients have benefited from our service. There are many moving parts within the computation that all drive benefit and each situation is unique. These range from:

- how the computation is tactically prepared,
- the decisions incorporated into the classification process,
- the allocation and determination of production costs, the sourcing methodology employed for expenses,
- the interpretation and application of regulations and other guidance from the Service, and
- our significant experience working claims successfully through the examination process.

The Service recently requested us to educate two designated SME's, situated in Austin, TX and LA, regarding our approach to a redetermination in a very complex environment that included multiple contract manufacturing relationships and a myriad of warehousing and distribution channels.

Our Team

Our analysis and solutions are provided by a core team of tax lawyers and CPA's who, collectively, have over 100 years of broad-based tax experience and we have particular expertise optimizing transactional tax benefits such as FSC, ETI, and DPAD. Each of our core team members work directly on the project from start to final resolution, including interaction with the service.

§199 – The Results

Example

Optimize §199 DPAD for three years (Fortune 500 manufacturer)

- Completed a redetermination and increased the benefit by **\$7,000,000** + interest
- Will apply methodology to next (4th) year... anticipating an additional benefit of **\$4,000,000** to be realized the following year
- These benefits are also permanent

Who Can Benefit?

We have filed a multitude of claims, and have many in process, that include the Fortune 5 to closely-held companies. No company is too large or complex and if a "smaller" prospect is motivated to pursue and opportunity we can efficiently and effectively produce a claim.