**Interested In Permanent Tax Benefits?**

Enacted as a replacement regime for the extraterritorial income exclusion, section 199 of the Internal Revenue Code allows a broadly-defined assortment of “manufacturers” to reduce their federal income tax rate by up to 3.15%, which produces permanent EPS and cash tax benefits.

Viewed from 10,000 feet, the determination of a company’s domestic production activities deduction (“DPAD”) under section 199 may appear to be a fairly simple exercise -- identify qualifying revenue, subtract related expenses, and multiply the result by an applicable percentage. For large corporate taxpayers, however, the calculation can be surprisingly complex; and that complexity often leads to an understated tax benefit.

To address the complexity that comes with, for example, multiple lines of business, cross-border operations, intercompany transactions, newly-acquired businesses, and the application of section 861 expense allocation and apportionment rules to multiple operative Code sections, corporate taxpayers, to a fairly significant extent, default to calculations driven largely by process. We have found during the course of numerous section 199 reviews that process-driven calculations can achieve optimal results only if (i) the process design was *very* sophisticated, (ii) there has been minimal turnover among the personnel administering the process, *and* (iii) the process is accompanied by a *significant* amount of annual, fact-specific analysis. In our experience, that “trifecta” of circumstances almost never exists.

To capture benefits unclaimed in prior years, and optimize future-year benefits, large corporate taxpayers should consider engaging a specialized firm to conduct a section 199 review. The review typically would involve a review of prior year tax returns and section 199 workpapers, as well as an evaluation of the taxpayer-specific section 199 process.

When selecting a firm to conduct a section 199 review, taxpayers should insist that the review team be staffed with partner-level tax professionals who have a broad range of corporate tax experience and a portfolio of section 199 review success stories. With a limited commitment of internal resources, significant EPS and cash tax benefits can be captured. It also has been our experience that a properly conducted section 199 review is likely to produce tax opportunities and insights beyond the scope of section 199.