

Volusia Manufacturers Association Tax Incentives



As an added benefit to members of the Volusia Manufacturers Association, James Moore & Co., P.L., CPAs and Consultants, is providing a summary of various federal and state tax incentives as a reference tool for the manufacturing community. Not all businesses will qualify for every incentive; however, we would be pleased to discuss any of the following with a member who has questions.

Federal Tax Credits, Deductions or Other Incentives—

- **Research and Development tax credit** – Research & Experimentation Tax Credits reward companies for investment in developing new products and processes. Often, companies that are meant to benefit from these credits overlook this opportunity.
- **Cost segregation studies** – Analyze all costs associated with real estate. The purpose is to identify hidden personal or tangible property eligible for faster write-off. Many companies can achieve substantial cash benefits by reclassifying nonstructural building costs that are buried in their building construction or acquisition costs.
- **Code Sec. 179 expensing** – The increase in the Code Sec. 179 expensing allowance (to a \$500,000 dollar limitation and \$2,500,000 investment limitation) that applies to tax years beginning in 2010 and is extended to tax years beginning in 2011.
- **Bonus depreciation** – For 2010, 50% bonus depreciation is available on new assets through September 8, 2010. For the remainder of 2010 and 2011, 100% bonus depreciation is available for new assets and qualified leasehold improvements.
- **Manufacturer's deduction** – 9% for 2010 and thereafter.
- **Small business Health Care Tax Credit** – Must have less than 25 full time equivalent employees and less than \$50,000 in average wages. The credit is up to 35% of health care premiums paid.
- In addition to the above, the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (H.R. 4853) has a significant amount of changes and updates to tax laws that are not specific to manufacturers. The following document will summarize the major changes: <http://www.jmco.com/images/documents/345.pdf>

Florida incentives –

- **Energy Produced for a Manufacturer's Own Use** – Under Section 212.06(1)(b), F.S., no sales or use tax is imposed upon any person that produces electrical power or energy, steam energy, or other energy for operation of machinery and equipment that will manufacture, process, compound, produce, fabricate or prepare for shipment tangible personal property for sale. Nor will tax apply if the energy produced is used in such operations for the purpose of operating pollution control equipment, maintenance equipment, or monitoring or control equipment.
- **Exemption for Machinery/Equipment Used by New/Expanding Business in Manufacturing** – Industrial machinery and equipment purchased for use in new businesses that manufacture, process, compound, or produce for sale items of tangible personal property at a fixed location are exempt from tax upon an affirmative showing by the taxpayer, to the satisfaction of the Department of Revenue, that the items are used in a new business in the state. (Fla. Stat. ch. 212.08(5)(b)1) Industrial machinery and equipment that is an integral part of the production process or postproduction process qualifies for the exemption.
- Industrial machinery and equipment purchased for use in expanding manufacturing facilities or plant units that manufacture, process, compound, or produce for sales items of tangible personal property at fixed locations in Florida are exempt. (Fla. Stat. ch. 212.08(5)(b) 2.a.) To qualify, the taxpayer must make an affirmative showing that the items purchased are used to increase the productive output of the expanded business by not less than 10%. NEW – on May

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28, 2010, new legislation was approved that relaxes the rules over the measurement of the increase in productive output from the entire facility to a specific product line. Industrial machinery and equipment that is an integral part of the production process or postproduction process qualifies for the exemption.

- **Research and Development Costs** – Section 212.052, F.S., exempts from tax the cost price of tangible personal property actually incorporated or fabricated into a research or development end product. As defined by the term “cost price” under Section 212.02(4), F.S. costs that are eligible for the exemption are materials, labor or service costs, transportation charges, and any other expenses identifiable as a cost of the item of tangible personal property incorporated or fabricated into the end product. Machinery and equipment used primarily in research and development may receive an exemption under Section 212.08(18), F.S.
- **Exemption for Labor/Parts/Repairs Incorporated Into Machinery/Equipment** – The cost of labor, parts, and materials required for repairing industrial machinery and equipment used in the manufacturing or preparation for shipping of tangible personal property at a fixed location in Florida is exempt. Manufacturers are eligible for the exemption if they are among the following industrial classifications: SIC Industry Major Group Numbers 10, 12-14, 20, 22-35, and 36-39 and Industry Group Number 212. (Fla. Stat. ch. 212.08(7)(zz))
- **Exemption for Materials Used in Manufacturing** – Retail sales, “use”, “storage”, and “consumption” do not include the sale, use, storage, or consumption of industrial materials, including chemicals and fuels, for future processing, manufacture, or conversion into articles of tangible personal property for resale when such industrial materials become components or ingredients of a finished product. (Fla. Stat. ch. 212.02(14)(c); Fla. Admin. Code. Ann. r. 12A-1.063(1)(a))
- **Exemption for Electricity/Steam/Fuels/Boiler Fuels Used in Manufacturing** – A sales tax exemption applies to charges for electricity used by specified industries at fixed locations in Florida to operate machinery and equipment for qualified purposes. The exemption also applies to charges for steam used for qualified purposes. Uses of electricity and steam qualified for the exemption include manufacturing, processing, compounding, production, or preparation for the shipment of tangible personal property for sale. The operation of pollution control, recycling, maintenance, or monitoring or control equipment used for such purposes is also eligible for the exemption. The specified industries to which the exemption applies include several metal industries, textile industries, wood and paper products industries, petroleum and coal industries, mineral and natural products industries, manufacturing industries, electronic industries, rubber and plastic industries, transportation equipment industries, chemical products industries and food products industries. (Fla. Stat. ch. 212.08(7)(ff))
- Purchases of natural gas, residual oil, recycled oil, waste oil, solid waste material, coal, sulfur, or wood for use as a combustible fuel in an industrial manufacturing, processing, compounding, or production process at a fixed location in the state are exempt from sales and use tax. (Fla. Stat. ch. 212.08(7)(b))
- **Machinery and Equipment to Produce Electricity or Steam** – Section 212.08(5)(c), F.S. exempts from tax the purchase or lease of machinery and equipment that are needed to produce steam or electrical energy and which are used at a fixed location. Such steam or electrical energy must be primarily used for manufacturing, producing, compounding, or processing for sale items of tangible personal property.
- **Semiconductor, Defense, and Space Technology** – Facilities certified as engaging in semiconductor, defense, or space technology production and/or research and development can purchase or lease machinery and equipment for their use tax exempt under Section 212.08(5)(j), F.S.. The Office of Tourism, Trade, and Economic Development (OTTED) issues the certifications. Unlike the provisions of Section 212.052, F.S., machinery and equipment employed in research and development activities for the herein specified industries will qualify for tax exemption. The following details the exemptions available:

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- Full (100%) exemption of tax on machinery and equipment purchased or leased by a semiconductor facility;
- Building materials for clean rooms located in semiconductor facilities are also exempt;
- 25% exemption of tax on machinery and equipment purchased or leased by a defense or space technology facility; and
- Machinery and equipment purchased or leased for research and development activities must be used at least 50% of the time in qualifying research and development.
- **Pollution Control Machinery and Equipment** – Section 212.051, F.S., exempts from tax pollution control machinery and equipment that are used when manufacturing, processing, etc., tangible personal property for sale at a fixed location. Privately owned or operated landfills and construction and demolition debris disposal facilities may also purchase tax free machinery and equipment used to abate, monitor or prevent pollution. To qualify, the items purchased must be used installed, or constructed to meet a law implemented by, or a condition of a permit issued by, the Department of Environmental Protection.
- **Solar Energy Systems** – Solar energy systems and the components of such systems as certified by the Florida Solar Energy Center (FSEC) are exempt from tax under Section 212.08(7) (hh), F.S. The term “solar energy system” means the equipment and requisite hardware that provide and are used for collecting, transferring, converting, storing, or using incidental solar energy for water heating, space heating and cooling, or other applications that would otherwise require the use of a conventional source of energy such as petroleum products, natural gas, manufactured gas, or electricity.
- **NASA/DOD Contractors** – Qualifying overhead materials purchased under a contract with NASA or the Department of Defense are exempt from tax under Section 212.08(17), F.S., irrespective of whether they were purchased for use or consumption by the contractor rather than for resale to the government (See TIP 99A01-21).
- **ENTERPRISE ZONES** – The following credits, refunds and exemptions are for businesses located within an enterprise zone:
 - **Enterprise Zone Jobs Tax Credit** – Section 212.096, F.S., provides a credit to eligible businesses against sales and use tax remitted based on a percentage of the wages paid to new full-time employees by the eligible business that is located in a Florida enterprise zone provided the business has increased its total number of full-time jobs from the average of the previous 12 months. Additional requirements must be met in order to qualify for this credit.
 - **Building Materials Refund** – Section 212.08(5)(g), F.S., authorizes the refund of sales tax paid on the purchase of building materials used to rehabilitate real property located in an enterprise zone.
 - **Business Property Refund** – Section 212.08(5)(h), F.S., provides for a refund of sales tax paid on certain business property purchased for use by a business located in an enterprise zone.
 - **Electrical Energy Exemption** – Section 212.08(15), F.S., authorizes an exemption of between 50 - 100 percent of taxes assessed for electrical energy used by a business located in an enterprise zone, provided the governing municipality has enacted an ordinance to reduce the municipal utility tax for enterprise zone businesses.

We would be happy to discuss any of the above or other question you may have regarding tax, accounting or other issues. You can contact Mike Sibley at James Moore & Co. at 386-257-4100 or e-mail at mikes@jmco.com.

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