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## Credit Virtually Eliminates State Income Tax on Income Derived from Wisconsin Manufacturing Activity

The federal government created a special manufacturing deduction with the American Jobs Creation Act of 2004, which provided incentives to keep jobs and manufacturing activity in the United States. Unfortunately for Wisconsin manufacturers, the State of Wisconsin has disallowed the special deduction for the past couple of years. With the passage of the 2011 Wisconsin Budget, a credit based on the company's qualified production activities income was created that makes up for this previous discrepancy.

The credit, designed to encourage and strengthen manufacturing in Wisconsin, will be phased in over a 4 year period beginning in 2013 (see chart below). When fully phased in, Wisconsin's tax on manufacturing income will decrease from 7.9% to 0.4%. Corporations will use the credit to offset their Wisconsin corporate income tax liability. For Partnerships, LLC's, and S Corporations, the partners, members, or shareholders will take the credit against their personal income tax liability. Unused tax credits can be carried forward for up to 15 years.



### Credit Phase-in Schedule

- 1.875% for tax years beginning after 12/31/2012 and before 1/1/2014
- 3.75% for tax years beginning after 12/31/2013 and before 1/1/2015
- 5.526% for tax years beginning after 12/31/2014 and before 1/1/2016
- 7.5% for tax years beginning after 12/31/2015 and thereafter

The credit uses the same definition of production activities as is used in federal tax law, but many of the details have yet to be released. The State Budget created the tax incentive, but the Wisconsin Department of Revenue now needs to interpret the language in the budget and create the formal tax law. We will update you as the State releases further information regarding the credit.