



6 Tax Credits (and more!)

for Manufacturing Businesses

By: **Collin Jahn**
Manufacturing Tax Advisor

Wisconsin's rich manufacturing history may have influenced your decision to set up shop here. But the truth is the state is facing some significant **challenges in the manufacturing sector**:

Hiring & Retention

The misconception that manufacturing is a dirty, dangerous, and low-paying industry discourages younger generations from considering this field a viable career option. Furthermore, there is a skills gap that exists in the manufacturing sector. Many workers lack the necessary skills for modern manufacturing jobs that require automation and advanced technology. In addition, manufacturers are also facing tough competition from other industries like technology and healthcare. These sectors entice top talent away from manufacturing, making recruiting and retaining skilled workers even more difficult.

Supply Chain Disruptions

Supply chain disruptions can cause delays in the delivery of necessary materials, which in turn delays the production of goods. This can result in lost revenue and frustrated customers.

Inflation

As the cost of goods and services increases, manufacturers may face higher production costs, making it more expensive to produce goods. This, in turn, can lead to higher consumer prices, which may reduce product demand. Raw materials and labor may also become scarce, causing additional supply chain issues that can further impact production costs.

Stainless Steel

Stainless steel is a versatile and durable material commonly used in various manufacturing processes. As such, the availability and pricing of stainless steel can affect the operations and profitability of manufacturing companies.

Tariff Issues

Tariffs have the potential to cause significant disruptions in international trade. These disruptions could range from delayed shipments to increased costs. As a result, manufacturers may need to adjust their supply chains to mitigate costs, leading to lower-quality materials or longer production timelines.

Wage Inflation

It's a tricky balancing act to keep budgets healthy, and labor costs manageable amid wage inflation. The constant rise in labor costs can eat into a company's profits, leading to reduced returns on investment.



Luckily, both federal and state governments have stepped in to help. They've implemented tax credit programs specifically designed to support the manufacturing industry. These programs offer financial relief and encourage innovation, crucial for keeping our state's manufacturing sector strong and competitive.

The best part? Taking advantage of the tax credits you qualify for could mean significant savings for your business each year. It could also give your company an edge over competitors and boost profitability.

Tax Credits vs. Tax Write-Offs

Both tax credits and tax write-offs or deductions are tax avoidance measures. The difference lies in how each factor in the computation of your taxes.

Tax write-offs differ from tax credits in that the former reduces your tax base to arrive at a lower tax liability, while the latter directly diminishes your tax liability.

Tax deductions are usually items in your operational expenses like self-rental, advertising, parking fees and tolls, and business mileage. Chances are, you've already accounted for these during tax preparation.

In contrast, if you haven't been [keeping up with tax laws and updates](#), you may have missed tax credits that are available to you. Luckily, our business tax advisors have compiled a list of six tax credits that manufacturing businesses in Wisconsin can take advantage of!

Work Opportunity Tax Credit

The Work Opportunity Tax Credit is a federal tax credit available to businesses, including manufacturers, that hire individuals with difficulty finding employment.



The WOTC applies to wages of individuals within the targeted groups hired on or before December 31, 2025, as extended by the Consolidated Appropriations Act.

The targeted groups include qualified veterans, vocational rehabilitation referrals, which are essentially individuals that have physical or mental disabilities that were referred to the manufacturer, a summer youth employee, and ex-felons, among others.

Employers of all sizes can claim the credit. You can claim up to 40% of employees' first \$6,000 in wages in their first year of work. Take note that the amount is capped at \$2,400 for each employee. Plus, the employee must have been employed at least 400 hours during their first year. Only 25% of the employee's first \$6,000 in wages can be claimed if employed under 400 but more than 120 hours. Different rules apply to other targeted groups.

2 Research & Development Tax Credit

The Research and Development Tax Credit is a federal tax credit that provides dollar-for-dollar cash savings for the qualifying expenses incurred in enhancing manufacturing performance. Manufacturers can qualify if they are attempting to improve a manufacturing process or product it produces.

Different activities qualify for the credit, such as designing and developing custom tooling used in the manufacturing process, developing new processes to increase overall performance, improving the current approach to meet new federal and state standards, and developing new techniques to increase performance, among others. Manufacturers can also use the credit against \$250,000 of payroll taxes.

Jobs Tax Credit

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The [Jobs Tax Credit](#) is a Wisconsin credit based on wages paid to eligible employees and the costs incurred to train them. The credit is income and should be reported on the business return for the year received. The Wisconsin Economic Development Corporation awards this tax credit.



Employee Retention Credit

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The [Employee Retention Credit](#) is a refundable tax credit on qualified wages and was used to help businesses that experienced government shutdowns or had a reduction in gross receipts. It was created by the [Coronavirus Aid, Relief, and Economic Security \(CARES\) Act](#) and terminated with the passage of the [Infrastructure Investment and Jobs Act](#).

Manufacturers could be eligible for the credit if sales declined by more than 20% during a single quarter in 2021 compared to 2019. The credit is based on 70% of the wages paid during the first two quarters of 2021, and there is a limit of \$10,000 in wages, per employee, for each eligible quarter.

If you are an eligible business that paid qualified wages from March 13, 2020 to September 30, 2021 (December 31, 2021 for Recovery Startup Businesses), and you haven't filed your claims yet, [you can retroactively file your claims within three years](#) from the ERC program's termination.



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The Wisconsin Manufacturing and Agricultural Credit is available to all businesses involved in manufacturing activities for the taxable years that begin on or after January 1, 2013. It is calculated by multiplying the income earned from qualified production activities by 7.5%.

It is a non-refundable credit and can be carried forward for 15 years. For each year that the credit is taken, it must be reported as income on the following year's tax return and claimed within four years from the due date of the filing of such return.



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The Business Development Tax Credit Program grants tax credits to an eligible business located in or relocating to Wisconsin. Additionally, your business' net employment in Wisconsin must increase for every year you claim such credit, compared to the year before your business was certified by the Wisconsin Economic Development Corporation (WEDC).

Wisconsin Manufacturing & Agricultural Credit



Business Development Tax Credit

The tax credits available under this program are:

- Up to 10% of annual wages paid to eligible employees earning at least 150% of federal minimum wage;
- Up to 50% of eligible training costs;
- Up to 3% of capital investment in business personal property, or up to 5% of eligible capital investment in real property; and
- Up to 10% of annual wages of positions created or retained at corporate headquarters facility.



Other Special Tax Benefits for Manufacturers:

- **Wisconsin Sales Tax Exempt Form for Manufacturers**

You can use the Wisconsin Sales and Use Tax Exemption Certificate to claim exemption from paying sales tax on fixed assets purchased and used in the production of qualifying products.

- **Section 179**

Section 179 is a depreciation deduction incentivizing smaller companies that invest in themselves. It allows the write-off of the first \$1,080,000 (increased by \$30,000 from 2021) of section 179 property acquired and put in service during the operating year in which the deduction is claimed.

A company can purchase up to \$2,700,000 worth of eligible equipment before the deduction begins to phase out. Total phase-out occurs when \$3,780,000 is bought and put into service by December 31, 2022.



But I've Already Filed My Tax Return...

You don't have to worry if you've already filed your tax return and missed any of these tax credits or benefits. You can still file an amended return using IRS Form 1040-X within:

- Three years from the filing of your original return, or
- Two years after the date you paid your tax, whichever is later.

Please note that if you filed your original return after the deadline due to the grant of an extension of time to file, your three-year period will run from the actual filing date.



Next Step:

Consult a tax professional if you have any questions or concerns. They can help you ensure you take advantage of all the tax credits available. At MBE CPAs, we have business tax advisors who can guide you through the process and help you save thousands of dollars. Talk to us today!