

Since the pandemic started, we have all been working to help our companies survive, but now is the time to THRIVE.

LGT

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Accountants & Advisors

TAX SAVINGS THROUGH TAX PLANNING

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JON WELLINGTON

Jon Wellington is a licensed attorney that has spent nearly 20 years serving the public. Specializing in matters unique to state and local taxation (SALT), Jon is the leader of the firm's SALT practice. Drawing on experience working with some of the largest accounting firms in the world, Jon's expertise in SALT matters includes audit defense, income and franchise tax planning, sales and use consulting, nexus studies, and property tax minimization. Jon is exceptionally well-versed in the SALT needs for clients in the construction, manufacturing/distribution, and not-for-profit sectors.

PROPERTY TAX

By Jon Wellington

COMPANIES CAN SAVE MONEY BY USING THE FREEPORT EXEMPTION ON INVENTORY

The Texas Constitution exempts "Freeport goods" from property tax. Freeport goods include most inventory that leaves the State of Texas within 175 days from the date the taxpayer acquired, manufactured, or brought the goods into Texas. Taxpayers claim the Freeport Exemption by filing a timely annual application with their appropriate appraisal district, although the exemption is only available for the taxing jurisdiction(s) that previously elected to grant the exemption. The percentage of inventory eligible for the exemption is based on the taxpayer's prior-year activity, and maintaining supporting documentation is critical. Appraisal districts vary in the documentation they require, but such documentation typically includes sales reports, inventory reports, and financial statements.

Expert tip – Incorporated goods shipped within Texas

If you sell your goods to another Texas manufacturer that incorporates your goods into their products, those goods may qualify for the Freeport Exemption. Consider the example of Manufacturer 1 that manufactures air conditioning compressors that it sells to Texas Manufacturer 2, who incorporates the compressors into air conditioning units. As long as Manufacturer 2 ships its air conditioning units outside Texas within 175 days of Manufacturer 1 acquiring the raw materials making up its compressors, Manufacturer 1 can claim a Freeport Exemption on those raw materials, even though they were shipped within Texas.

The Freeport Exemption is available to businesses now, so make sure you are maximizing its benefits.

WHAT ARE FREEPORT GOODS?

Freeport goods are:

1. Finished goods, supplies, raw materials, and works in progress.
2. In Texas for assembly, storage, manufacturing, repair, maintenance, processing, or fabrication
3. Located in tax jurisdictions that grant the Freeport Exemption

* Freeport goods must leave Texas within 175 days and cannot include oil or natural gas or products from oil or natural gas.

QUESTIONS? ASKUS@LGT-CPA.COM



IF YOU ARE INTERESTED IN LEARNING MORE ABOUT THIS TOPIC REACH OUT TO US AT ASKUS@LGT-CPA.COM



LOOKING FOR DIRECTION WHEN IT COMES TO TAX PLANNING?

LGT KNOWS THE WAY

T AX SAVINGS THROUGH TAX PLANNING

LANE GORMAN TRUBITT (LGT) HELPS COMPANIES SAVE THROUGH TAX CREDITS

The professionals at LGT regularly provide tax services to manufacturing and distribution companies

The decisions you make today will inevitably have tax consequences tomorrow. Since the overall tax burden is one of the top non-revenue generating expenses a company faces, it is important to maximize tax saving opportunities.

Taxes impact every part of a business plan. From the start-up phase, through the growth phase, and into maturity, LGT is the premier tax and accounting firm for manufacturing and distribution companies like yours. Our firm will be by your side no matter where you are in your business journey.

Reach out to us today to make a plan for thriving in the future.

THE TAX CREDITS YOU MAY BE MISSING



CALLIE LEMLE

Since joining LGT in 2014, Callie has brought a great level of enthusiasm and experience to her position at our firm. As an audit principal, Callie oversees the work performed by professional staff and serves as the primary link between the professional staff, engagement partner, and the client. During her time at LGT, Callie has continually developed knowledge in the employee benefit plans and manufacturing and distribution industries, which allows her to better evaluate and provide recommendations to her clients for enhancement of internal controls for the success of their business. Callie is also actively involved in research of new accounting and regulatory standards in order to appropriately advise and assist her clients with adopting and implementing the new guidance or legislation.

THAT YOUR EMPLOYEES WILL THANK YOU FOR USING

by Callie Lemle

In December 2019, the Setting Every Community Up for Retirement Enhancement (SECURE) Act was signed into law and considered to be the most significant piece of retirement-related legislation since the Pension Protection Act of 2006. Unfortunately, this sweeping legislation was heavily overshadowed by the enactment of the Coronavirus Aid, Relief, and Economic Security (CARES) Act in March 2020. As a result, many employers are unaware of tax credits for retirement plans set forth by the SECURE Act that could be taken advantage of in the current tax year.

Tax Credit for Creating a New Retirement Plan

Eligible employers may be able to claim a tax credit of up to \$5,000 for the ordinary and necessary costs of starting a qualified retirement plan such as a 401(k) plan, SEP, or SIMPLE IRA. The tax credit can be taken for each of three years, for a maximum of \$15,000. However, there are some requirements to be considered an “eligible” employer. First, the employer must have 100 or fewer employees who received at least \$5,000 in compensation from you for the preceding tax year. Second, the employer must have at least one non-highly compensated employee (NHCE); meaning the individual is not a 5% owner in either the current or prior year, and the individual’s compensation did not exceed \$130,000 in the prior year. Lastly, the retirement plan must be new – it cannot cover substantially the same employees as another plan sponsored by the employer or which includes the employer as part of a controlled group of employees.

Eligible startup costs include costs to set up and administer the plan, as well as costs to educate your employees about the plan. As with all

good things, there are limits. The tax credit is currently limited to 50% of the eligible startup costs incurred by the employer, up to the greater of (a) \$500 or (b) the lesser of (i) \$250 multiplied by the number of NHCEs who are eligible to participate in the plan or (ii) \$5,000.

Changes are coming fast! Proposed legislation that has been nicknamed “SECURE Act 2.0” aims to increase the 50% limit on eligible startup costs to cover 100% of these costs. Be on the lookout for updates from us as we follow this proposal through the legislative process.

Additionally, you may elect to have the preceding tax year be the first credit year and claim the credit for eligible startup costs incurred during that tax year. For example, an eligible small employer whose new plan is effective January 1, 2022 may elect to treat 2021 as the first credit year and claim the credit on its 2021 tax return for eligible startup costs incurred during that year. In other words, if you start setting up your new retirement plan now, you could qualify to claim your credit in this tax year, even if the new retirement plan does not go into effect for your employees until 2022.

Tax Credit for Adding Auto-Enrollment to Your Plan

An eligible employer that adds an auto-enrollment feature to their retirement plan can also claim a tax credit of \$500 per year for a three-year taxable period, beginning with the first year the employer includes the auto-enrollment feature. Unlike the new retirement plan tax credit above, the auto-enrollment tax credit is not limited to new retirement plans – an existing retirement plan can also take advantage of this credit.

When it comes to open enrollment in a retirement plan, some employees will choose not to contribute, opting for a short-term financial strategy of having more money now. With auto-enrollment, once employees meet the eligibility requirements to participate in the plan, they will be automatically enrolled with a standard deferral rate, typically 3%. This eases the employee into a long-term financial strategy of saving money for their retirement. Of course, the employee can opt out of participation at any time or change their rate of deferral.

If you are thinking of taking advantage of this particular tax credit for a new retirement plan, you may want to act fast. SECURE Act 2.0 is proposing that new retirement plans established after 2021 will be required to use automatic enrollment. If mandatory automatic enrollment regulations are passed, the availability of this additional tax credit may go away. However, existing plans would not be mandated to use automatic enrollment, and therefore the auto-enrollment tax credit may stay in place for utilization by existing plans. Stay tuned, and we will keep you up-to-date on any changes!

WHY SET UP A RETIREMENT PLAN FOR YOUR EMPLOYEES?

In addition to the available tax credits discussed, there are several other benefits to setting up a retirement plan for your employees.

- **Plan options are extremely flexible.** There is undoubtedly a retirement plan structure out there that will work well with your company, whether it is a 401(k) plan, a SEP, a SIMPLE IRA, or even a SIMPLE 401(k).
- **Employer contributions to the plan can be tax-free.** Your employees do not pay income or payroll tax on your employer contribution and neither do you, which can help the company save on payroll tax expense.
- **Employer contributions to the plan are tax-deductible.** Whether you choose to make a profit sharing contribution to the plan or make matching contributions on your employees’ deferrals, a tax deduction is waiting for you.
- **A retirement plan can attract and retain better employees.** The importance of saving for retirement is ever increasing, and new individuals to the workforce, as well as seasoned employees, are searching for the added benefit of a retirement plan in their career choices. By offering this crucial benefit to your employees and new hires, you are already one step ahead of your competitor who does not have a retirement plan offering.

THINKING ABOUT STARTING A RETIREMENT PLAN? COME TALK TO US FIRST!

Our team of qualified professionals can help you decide what type of retirement plan is right for your company and your employees, as well as connect you with highly-rated third party administrators for your plan that can help streamline the administrative tasks for you, the employer. Worried about that extra tax filing that comes with running a retirement plan? We can help with that, too!

ASKUS@LGT-CPA.COM



Want more articles? Visit our educational database for more info: blog.lgt-cpa.com

Need a professional? LGT is ready to give you the best accounting and advising experience available.

TESTIMONIALS ABOUT OUR SERVICES

LGT is proud to have one of the highest customer service ratings in the country. We don't expect you to take our word for it; we'll let our clients share their experiences.



Audits and more

"The audit team has been great. I enjoy working with them and they are considered to be business partners here."

Tom Klemp – Continental Battery Company



40 years of exceptional services

"I've been a client for almost 40 years...starting with Robert Lane. We became close friends and made me financially disciplined at the beginning of my career. The team at LGT has done an amazing job...especially as my tax planning and advising needs expanded over the years."

R Gregory Meidel



Talk the talk and walk the walk

"I've worked with countless CPA firms through the years, all over the US. After I visit with you, talk with you on the phone, get your emails, I'm confident I've gotten the best advice."

Dan Cutrer – The Hidden Door

SALES TAX

MANUFACTURING EXEMPTION

By Jon Wellington

The manufacturing exemption is one of the most valuable sales tax exemptions available to taxpayers. Texas exempts tangible personal property that becomes an ingredient or component of an item manufactured for sale, and also exempts any equipment that makes a chemical or physical change in the product being manufactured and is necessary and essential in the manufacturing process. The exemption extends to any services performed on the manufactured product or manufacturing equipment. The manufacturing process begins with the first stage of production and ends when the product has the same physical properties as when sold, including packaging. Manufacturing includes the design and writing of software, as well as its testing and demonstrating.

Taxpayers claim the manufacturing exemption by providing a vendor with a fully-completed exemption certificate

explaining the reason the purchase is exempt from tax. Contractors (who install tangible personal property into real property or improvements to real property) are not eligible for the manufacturing exemption. If a taxpayer uses exempt manufacturing equipment for a "divergent use," tax is due but only based on the amount of the divergent use as calculated under a prescribed formula.

Expert tip - Utilities

The manufacturing exemption applies to electricity used directly in the manufacturing process. To take advantage of the exemption, you must have a "predominant use study" performed to see whether most (>50%) of the electricity running through a meter is used in the manufacturing process – it is an all-or-nothing exemption per meter. The study is based on the previous 12 months usage or a projected usage as certified by an electrical engineer certified to do this kind

of study. The exemption can be applied retrospectively for a refund, as long as the study asserts the facts that would support such a claim for the relevant periods.

Texas imposes a miscellaneous gross receipts tax ("MGRT") on utility providers within an incorporated city or town, which the utilities pass on to their customers. The tax rate is based on the population of the city, with rates approaching 2%. Because this tax is only imposed on utilities used within an incorporated city, any business locations outside of an incorporated city should not be liable for the MGRT. Because customers often use a billing address different from the location of their operations, and because utility providers do not pay close attention to customer addresses, you may have paid MGRT in error. If you think this might be the case, LGT can help you resolve this in the future.

LGT can help you with all your
M&D accounting needs

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Work with the best at Lane Gorman Trubitt

OUR TEAM

Manufacturing & distribution industries encompass a diverse and wide-range of businesses from all stages of development. From start up to Fortune 500, these companies require the same thing from their accounting and consulting firm – a knowledgeable financial partner. Our M&D leaders can help you find the right professional at the firm.



Dawn Möeder

Partner

Dawn Möeder leads both the firm's assurance services practice as well as the manufacturing and distribution (M&D) practice. A chartered accountant from the United Kingdom, Dawn brings an international perspective to her approach with clients.

- Assurance Services 
- Inventory Audit 
- C-Suite Experience 

Sara Godecke

Principal

Sara has 15+ years of experience in public accounting auditing not-for-profits, government entities, school organizations, manufacturing, construction, and technology businesses. She serves as a liaison between the partner, client, and professional staff.

- Technology 
- Internal Controls 
- Controller Exp. 

Callie Lemle

Principal

Callie has continually developed knowledge in the employee benefit plans and manufacturing and distribution industries, which allows her to better evaluate and provide recommendations to her clients for enhancement of internal controls for the success of their business.

- Audit 
- Retirement Plans 
- Reg. Standards 



LGT IS THE CHOICE FOR M&D ACCOUNTING

Contact us today and let us help you set your company on the path to THRIVE

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MOVING FORWARD AND THRIVING.