

WISCONSIN MANUFACTURERS CREDIT

WHAT IS THE MANUFACTURERS CREDIT?

The Manufacturers Credit is a powerful income tax credit that will virtually eliminate the Wisconsin income and franchise tax on net income from manufacturing when fully phased in in 2016. This credit was initially enacted in the 2011-13 state budget and subsequently strengthened and clarified in 2011 Wisconsin Act 232. The credit was initially developed by Senator Glenn Grothman (R-West Bend) and Representative Dale Kooyenga (R-Brookfield). WMC was instrumental in both the initial enactment of the credit and in the subsequent act.

HOW WILL THE MANUFACTURERS CREDIT HELP MY BUSINESS?

When fully phased in, the credit will be equal to 7.5 percent of a manufacturer's net income derived from sales of tangible personal property that is manufactured in whole or in part in Wisconsin. In the simplest case of a manufacturer located solely in Wisconsin who receives 100 percent of its income from the sale of tangible personal property manufactured entirely in Wisconsin, the credit will offset 7.5 percent of the manufacturer's net income when fully phased in, virtually offsetting the manufacturer's income tax liability. For manufacturers that have activities both in Wisconsin and elsewhere, the calculation is more complicated. However, generally speaking, the greater a manufacturer's investment in manufacturing property in Wisconsin, the more net income that can be protected by the credit. The credit can be applied against corporate income tax liability or, for partnerships, LLCs, or tax-option corporations, against personal income tax liability of partners, members, or shareholders in proportion to their ownership interests.

FACTS ABOUT THE MANUFACTURERS CREDIT

The credit will be phased in as follows:

- 1.875 percent for tax years beginning after December 31, 2012, and before January 1, 2014;
- 3.75 percent for tax years beginning after December 31, 2013, and before January 1, 2015;
- 5.526 percent for tax years beginning after December 31, 2014, and before January 1, 2016;
- 7.5 percent for tax years beginning after December 31, 2015, and thereafter.

Unused tax credit amounts could be carried forward up to 15 years to offset future tax liabilities.

The credit will reduce personal and corporate income tax collections by:

- \$10,100,000 in fiscal year 2012-13;
- \$44,200,000 in 2013-14;
- \$72,300,000 in 2014-15;
- \$104,400,000 in 2015-16;
- \$128,700,000 in fiscal year 2016-17 and thereafter.

¹ Technically, the credit is known as the Manufacturing and Agriculture Credit. This document focuses on the credit as it applies to manufacturers.

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As with most good things in life, there are limitations on the Manufacturers Credit. The most fundamental requirement is that in order to claim the credit, a manufacturer must own or lease property classified as manufacturing property by the Department of Revenue and that property must be used to produce tangible personal property. Therefore, for businesses engaged in manufacturing who have not taken the steps to have their property classified as manufacturing property, it will be necessary to obtain manufacturing classification in order to claim the credit.

There are other limitations as well:

- Income from film production does not qualify, as does income from producing, transmitting or distributing electricity, natural gas or potable water. Likewise, net income from following sources does not qualify: (1) the sale of food and beverage that are prepared by a claimant at a retail establishment; (2) the lease, rental, license, sale, exchange, or other disposition of land; (3) receipts from engineering or architectural services.
- Income from real property construction does not generally qualify.
- The amount of net income qualifying for the credit cannot exceed the amount of income apportioned to Wisconsin and, for corporations subject to combined reporting, the amount of eligible net income may not exceed income taxable to that corporation as determined by the combined reporting law.
- While the credit is not refundable, there is no dollar limit on the amount of a credit.

CALCULATE YOUR TAX SAVINGS!

Strictly speaking, the Credit applies to a manufacturer's Qualified Production Activities Income. You should consult with a tax professional to determine the extent to which your company has Qualified Production Activities Income. The table below illustrates the impact of the Manufacturers Credit at different levels of Qualified Production Activities Income on Wisconsin corporate income tax when fully phased in.

Qualified Production Activities Income	Tax Liability Based on Current 7.9% Tax Rate	Tax Liability Based on Effective 0.4% Tax Rate
\$ 125,000.00	\$ 9,875.00	\$ 500.00
\$ 250,000.00	\$ 19,750.00	\$ 1,000.00
\$ 500,000.00	\$ 39,500.00	\$ 2,000.00
\$ 1,000,000.00	\$ 79,000.00	\$ 4,000.00
\$ 1,500,000.00	\$ 118,500.00	\$ 6,000.00