EXCERPTS OF RECENT MEDIA COVERAGE

MANUFACTURING & DISTRIBUTION PRACTICE

A SAMPLING OF BDO THOUGHT LEADERSHIP IN THE MEDIA FOR Q4 2014

▶INDUSTRYWEEK

TRANSPORTATION INFRASTRUCTURE IS THE ROAD TO MORE COMPETITIVE U.S. MANUFACTURING

By **Howard Sosoff**

The U.S. manufacturing industry is in the midst of a comeback. Manufacturers are gladly shifting from securing demand to meeting demand. However, reworking the U.S. transportation infrastructure is essential to the success of this progress.

Today there are more than 4 million miles of road, 600,000 bridges, and 3,000 transit providers in the U.S. that have been impacted from the falling share of GDP dedicated to transportation from federal, state and local levels – while population, congestion, and maintenance backlogs have increased, according to "An Economic Analysis of Transportation Infrastructure Investment," prepared this year by the National Economic Council and the President's Council of Economic Advisers.

If this lack of investment and attention persists, it could be a significant roadblock to a flourishing manufacturing industry here in the homeland...

The ongoing deterioration has not only resulted in consecutive near failing grades from the ASCE (During the last assessment period, the U.S. also received a D), but also in additional expenses for manufacturers plagued with unexpected maintenance and fuel costs resulting from the current state of the transportation infrastructure system...

Fueling a Resurgence

To transform this aging system into the seamless and safe network it must become for the manufacturers of today and tomorrow...It will call for significant improvements and private and public collaboration...

While steps are being taken to right the system, however, much more needs to be done before it can truly help fuel an ongoing resurgence of American manufacturing.

A few examples that signal a renewed commitment to reworking America's infrastructure include:

- The GROW AMERICA Act: A proposal... to spend $302 billion over the next four years to make the necessary changes to the current infrastructure system to strengthen its mobility and make the country more competitive within the global marketplace...
- Raising of the Bayonne Bridge: A project...that will substantially increase the distance between the bridge and the water allowing for larger container ships that previously were unable to cross under to do so. The project will open up marine terminals...to a greater number of ships...
- The Deepening of PortMiami:...PortMiami is deepening its harbor...and widening

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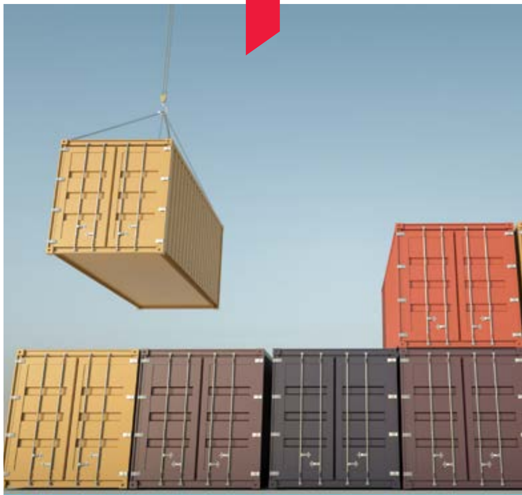

BDO has been a valued business advisor to manufacturing and distribution companies for more than 100 years. We work with a variety companies from all industrial sectors, ranging from global distributors to startup and niche manufacturing corporations, on a myriad of accounting, consulting, tax and other financial issues.

part of its shipping channel. This is part of its approach to increase cargo and efficiency, along with a new port tunnel to speed truck traffic and a rail link to the FCC rail yard near the airport...

As more improvements...made, U.S. manufacturers and the industry...will enjoy a more efficient and smart infrastructure that leads to greater:

- Marketplace Competiveness: Through the development of a more strategic infrastructure that creates greater transportation and sourcing efficiencies, there would ultimately be a decrease in costs associated with getting goods to market...
- Job Growth: Increased spending on infrastructure would increase employment as well as real household incomes...
- Cost Savings:...With the time and money savings realized through the need for less gas and vehicle maintenance, companies would be well positioned to move forward with capital investments that positively impact their businesses and bottom lines.
- Customer Satisfaction: As a result of a more efficient transportation structure... on-time performance would allow manufacturers to streamline warehouses and fleets, as well as strengthen customer relationships and satisfaction through shorter lead times.

GRAYWAY

THE HEAVYWEIGHTS OF LIGHTWEIGHTING

By Pam Mangas

Two years of steady growth in the U.S. manufacturing industry has many convinced the resurgence of this vitally important market segment is here to stay. Leading the way are the world's automakers and aerospace manufacturers who have seen healthy gains...with no signs of slowing down.

Essential to the manufacturing of cars and planes is a robust metals market, capable of not only providing an adequate and diverse supply of metals to auto and aircraft makers, but also able to meet the ever-changing needs of these manufacturers as restrictions on fuel-efficiency and gas emissions tighten...

"Energy is a big cost component for the metals industry and metal manufacturing,"

said **Rick Schreiber, Memphis Assurance Managing Partner and Manufacturing & Distribution Practice member at BDO USA LLP**, a leading global accounting, tax and consulting firm. "With the energy renaissance, we're seeing growth in the metals space, in addition to a lot of other spaces. We're seeing more plants, but we're also seeing more expansion projects too. That's because the economy continues to be improving and consumer confidence continues to be going in the right direction..."

TITANIUM: A Metal for All Things, Big and Small
Another emerging contender in the metals market is titanium...

"Titanium has been doing extremely well over the last four or so years and I expect that to continue as well," said BDO's Schreiber. "What I'm seeing is very similar to aluminum—aerospace seems to be its largest growth driver, again all from the more fuel-efficient reasons there, but also other consumer goods are helping drive titanium."

INDUSTRYWEEK

TAX PLANNING STRATEGIES FOR MANUFACTURING COMPANIES

By **Doug Bekker**

Over the past few years, both the

U.S. House of Representatives and the U.S. Senate have worked to craft comprehensive tax reform, as well as compile temporary "extender" provisions for popular tax benefits.

In 2015, two important tax incentives for manufacturers are on the legislative agenda—including an extension of the research and development credit and retroactive institution of "bonus" depreciation...Understanding available credits, as well as credits and provisions that are likely to be retroactively applied, is crucial in tax planning...

Benefits under the R&D Provisions
One thing a number of professionals and politicians agree on is that the research and development (R&D) provisions help bolster the U.S economy. The tax break helps companies reduce the cost of staying technologically competitive, and, at the same time, may help to create and sustain job growth. However...the credit is still not a permanent fixture in the tax code...

In general, the research and development tax credit is equal to a percentage of qualified research expenses (QREs) for the current tax year. QREs are broadly defined as taxable wages paid for the performance of qualified research, amounts paid for supplies used in development efforts and payments made to third parties for design and testing. If money is being spent to find ways to make a product faster, cheaper, or more efficient, there is likely opportunity for a tax credit under the R&D rules. Even if the changes to the product are merely incremental, the expenses could still qualify for credit...

Permanent Benefit Available Under Section 199—Domestic Production Activities Deduction
Luckily for manufacturing companies, the section 199 deduction is not slated to disappear either through comprehensive tax reform or through an extenders package.

Generally, this incentive is available to U.S. manufacturers and allows for an additional 9% deduction of the lesser of taxable income, or 9 percent of "qualified production activities income" (QPAI). QPAI is equal to the amount by which gross receipts from eligible manufacturing and production activities exceed related expenses...

Activities include, but are not limited to:

- Manufacturing, production, growth or extraction of tangible personal property in the U.S.

Read more

- Construction of real property in the U.S.
- Performance of engineering or architectural services in the U.S. in connection with real property construction projects in the U.S.

Activities that are not eligible for this deduction include:

- Service revenue
- Fixed asset disposals
- Investment income
- Resale of purchased products.

Even if part of the production process occurs outside of the U.S., there still may be an opportunity to claim a deduction under section 199. The tax code dictates that the production must occur "in whole or in significant part" within the U.S...

If the entire product in question does not meet the "whole or significant part" test, the component parts manufactured in the U.S could still qualify for the deduction. The classic example illustrating this provision is one in which a shoe manufacturer makes the leather and rubber soles in the U.S., but imports the shoe uppers. The gross receipts generated from the sale of the shoe itself may not qualify for the deduction, but the component of gross receipts derived from just the soles could qualify...

Tax Rate Reductions Available under the IC-DISC

If your company has profitable export sales, you may be able to increase after-tax cash flow by up to 20 percent. This may be possible by converting what would be ordinary income—taxable at a maximum rate of 39.6 percent for flow-through entities or 35 percent for C-Corporations—to capital gain income taxable at a maximum rate of 20 percent. If the products in question have already been deemed to qualify under section 199, than rate reduction benefits under the interest-charge domestic international sales corporation (IC-DISC) may also be available.

The tax rate reduction is generated by creating a separate entity organized as a C-Corporation. The C-Corporation may be able to apply for IRS approval to be treated as an IC-DISC. Once approved, the IC-DISC is deemed to participate in the exporting process of the operating entity and earns a "commission..." Under the IC-DISC rules, commission earned by the IC-DISC is tax free to the C-Corporation. When the IC-DISC distributes the income it earns to its shareholders, the distribution is treated as a dividend taxable at capital gain rates, rather than ordinary income rates...

Though legislative maneuvering may create uncertainty around popular tax provisions like the R&D credit and bonus depreciation, manufacturing companies don't need to be stifled by inaction. Despite this uncertainty, opportunities like the section 199 deduction and the IC-DISC remain in place and represent legitimate strategies for manufacturing companies looking to optimize cash flow for 2015 and beyond.

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