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[Return to Newsline](#)

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IRS Issues Final Rules on New Domestic Production Income Tax Deductions

The U.S. Treasury Department and Internal Revenue Service (IRS) June 1 issued final regulations for new domestic production income tax deductions under Internal Revenue Code Section 199.

Earlier this year, Rich Shavell of Shavell & Company, P.A., Boca Raton, Fla., a member of ABC's Florida East Coast chapter, testified at an IRS hearing to discuss ways to implement the new domestic production income tax deductions. Shavell, a certified public accountant who serves as chairman of ABC's Tax Advisory Group, expressed ABC's support for the new law, but urged the IRS to simplify rules implementing the deduction to enable small businesses, including contractors, to effectively benefit from the new deduction.

"ABC's comments to the IRS helped bring about two major changes in the final rules," said Shavell. "We asked the IRS to simplify how S corporations were going to report the new deductions, and although they did not give us all that we asked, they have moved toward significantly reducing the complexity of the reporting process for pass-through entities. Also, we were successful in obtaining clarification and simplification of lengthy procedures for allocating deductions for construction materials."

The new section 199 deduction will allow companies to deduct 3 percent of income from domestic production activities for 2005, increasing to 9 percent by 2010. Under the statute establishing the deduction, construction performed in the United States by contractors who may or may not have ownership of the finished project is included.

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