

TREASURY AND IRS ISSUE REGULATIONS ON DOMESTIC PRODUCTION ACTIVITIES DEDUCTION

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<http://www.treas.gov/press/releases/js4286.htm>

WASHINGTON, DC – The U.S. Treasury Department and Internal Revenue Service (IRS) today issued final regulations under Code section 199 on the deduction relating to domestic production activities. In addition, the Treasury Department and IRS simultaneously issued proposed and temporary regulations regarding the application of section 199 to certain transactions involving computer software, as well as a Revenue Procedure that provides methods for calculating W-2 wages for purposes of section 199.

The section 199 deduction relating to domestic production activities was enacted in October 2004 as part of the American Jobs Creation Act, and was recently modified by the Tax Increase Prevention and Reconciliation Act of 2005. The deduction generally equals three percent of income from domestic production activities for 2005 and, by 2010, nine percent of such income. The activities eligible for the deduction include not only the manufacture of personal property such as clothing, goods, and food, but also the development of computer software, film and music production, the production of electricity, natural gas, or water, and construction, engineering, and architectural services.

The final regulations include many of the rules contained in proposed regulations issued in October 2005, and the initial guidance, Notice 2005-14, issued in January 2005. In addition, in response to more than eighty comment letters received regarding the proposed regulations, the final regulations provide many additional comprehensive rules, definitions, simplifying conventions, and examples to ease the administrative burden on taxpayers.

The final regulations are generally effective for taxable years beginning on or after the date the final regulations are published in the Federal Register. For taxable years beginning prior to the effective date of the final regulations, a taxpayer generally may apply either (i) the final regulations, provided the taxpayer applies all provisions in the final regulations; or (ii) subject to certain

limitations, the rules provided in the Notice as well as the proposed regulations.

The final regulations do not address the changes to section 199 made by the Tax Increase Prevention and Reconciliation Act of 2005. The Treasury Department and IRS intend on issuing regulations to address these changes, which are effective only for taxable years beginning after May 17, 2006.

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Related Documents:

Final regulations under section 199

<http://www.treas.gov/press/releases/reports/td9263.pdf>

Proposed and temporary regulations under section 199

<http://www.treas.gov/press/releases/reports/11157806.pdf>

Revenue Procedure 2006-22

[http://www.treas.gov/press/releases/reports/rev proc 200622.pdf](http://www.treas.gov/press/releases/reports/rev%20proc%20200622.pdf)