

## Administrative Codes

### UIL Codes:

199.00-00 – Income attributable to Domestic Production Deduction Activities.

199.01-00 - Taxable Income and Adjusted Gross Income.

199.01-01 - Taxable Income and Adjusted Gross Income.

199.02-00 - Wage limitation.

199.03-00 - Domestic Production Gross Receipts (DPGR).

199.03-01 - Definition of manufactured, produced, grown, or extracted.

199.03-02 - Definition of By the taxpayer.

199.03-03 - Definition of In Whole or In Significant part.

199.03-04 - Definition of United States.

199.03-05 - Derived from the lease, rental, license, sale, exchange, or other disposition.

199.03-06 - Allocation of gross receipts.

199.04-00 - Costs allocable to Domestic Production Gross Receipts.

199.04-01 - Cost of goods sold allocable to Domestic Production Gross Receipts.

199.04-02 - Other deductions properly allocable to Domestic Production Gross Receipts or gross income attributable to Domestic Production Gross Receipts.

199.05-00 - Application of section 199 to pass-thru entities for taxable years beginning after May 17, 2006, the Enactment Date of the Tax Increase Prevention and Reconciliation Act of 2005 [reserved].

199.06-00 - Agricultural and horticultural cooperatives.

199.07-00 - Expanded affiliated groups.

199.08-00 - Other rules.

### SAIN Code:

527 – Domestic Production Activities (for years 2005 and later).

**Project/Tracking Code:** 0560

**ITA Code:** H200—H219

## Issue Management Team (IMT)

**Issue Executive Owner** - Laura M. Prendergast

**Senior Manager to Technical Advisors** – Dorothy Livaudais

**Issue Counsel** – Charles Buxbaum

**Industry Representative (HMT)** – Robert Lew

**Industry Representative (CTM)** – Geri Quinn

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### IMT Contacts:

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# Tier I

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## Section 199

### Domestic Production

## Quick Reference Guide

March, 2009

### Issue Owner Executive (IOE)

**Charles Brantley, Director**

**Heavy Manufacturing &  
Transportation**



# Tier 1

## Tier I: Section 199 Domestic Production Deduction

### Issue Description

On October 22, 2004, the President signed into law the American Jobs Creation Act of 2004 (P.L. 108-357). The new law was designed to protect United States jobs and replace the extraterritorial income exclusion.

The domestic production deduction, (newly created IRC Section 199,) generally allows taxpayers to receive a deduction based on qualified production activities income (QPAI) resulting from domestic production (assuming QPAI is lesser than the taxpayer's taxable income determined without reference to IRC 199). Taxpayers will be allowed, for tax years ended after December 31, 2004, a deduction that effectively reduces the income tax rate on domestic production activities.

In the initial years, 2005 and 2006, the deduction is 3%, moving to 6% in 2007 and 9% for taxable years beginning after 2009. Qualifying domestic production includes: the manufacture of tangible personal property; the production of computer software, sound recordings and certain films; the production of electricity, natural gas, or water; and construction, engineering, and architectural services.

### Appeals Settlement Guidelines (ASGs)

Currently there are no ASGs for this issue.

### Issue Specialization Team (IST)

Currently there is no IST for this issue.

### Executing IMT Strategy for Tier I Issues

#### Audit Teams Should:

- Establish the Tier I Issue on IMS using the UIL code per the ID Directive.
- Research the issue on the Tier I website.
- Communicate with the IMT early to determine the strategy and any special requirements for the issue.
- Consider the issue in the audit planning and risk assessment in accordance with the IMT strategy.
- Utilize the audit tools and techniques provided by the IMT to develop the issue.
- Resolve the issue using all resolution tools in alignment with the IMT strategy.

### Industry Director Directives (IDDs)

Industry Director Directive for Domestic Production Activities Deduction made public on IRS.gov on December 14, 2006: <http://www.irs.gov/businesses/article/0,,id=164979,00.html>

Minimum checks for Section 199: [http://www.irs.gov/pub/irs-utl/minimum\\_checks\\_2.pdf](http://www.irs.gov/pub/irs-utl/minimum_checks_2.pdf)

Second Industry Directive was issued August 24, 2007 requires coordination with IMT: <http://www.irs.gov/pub/irs-utl/domesticproductionidd2.pdf>

IDD #3 was issued March 4, 2009 and relates to compensation expenses currently deducted but attributable to prior periods: <http://www.irs.gov/businesses/corporations/article/0,,id=205213,00.html>

### Mandatory IDRs

The following minimum checks were developed for use by the field:

[http://www.irs.gov/pub/irs-utl/minimum\\_checks\\_2.pdf](http://www.irs.gov/pub/irs-utl/minimum_checks_2.pdf)

### Current Status of Issue

- \* Final Regulations published in June 2006.
- \* Final TIPRA regulations published in February 2008.
- \* Multiple pieces of published guidance have been issued and are posted on the domestic production web site, as well as CENTRA sessions, audit tools, and other useful reference material.
- \* Two technical advisors are assigned to the issue, as well as one LMSB attorney.
- \* The Technical Advisors and LMSB attorney regularly confer with National Office attorneys to discuss IRC 199 technical issues.
- \* Regular external conference calls with ABA, AICPA, TEI, MAPI and others are held with the IMT.
- \* The IMT address issues raised by external groups via guidance, audit tools or other methods.
- \* Presentations at sub-industry meetings and CAP training.
- \* Initiate assistance to or training of the teams with the larger 199 deductions.
- \* Centra sessions were held in FY2008, and a comprehensive training package is planned for FY2009.
- \* Successful exam team collaboration with taxpayer on completion of IRC 199 on CAP cases.
- \* Successful completion of 4 PFA's on Section 199 with 3 PFA's in process and nearing completion.

### Administrative & Technical Guidance

Final regulations on income attributable to domestic production activities: [http://www.irs.gov/pub/irs-regs/td\\_9263.pdf](http://www.irs.gov/pub/irs-regs/td_9263.pdf)

Proposed regulations for Section 199: <http://www.treasury.gov/press/releases/reports/nprm%20101905.pdf>

Temporary Regulations on computer software: [http://www.irs.gov/pub/irs-regs/td\\_9262.pdf](http://www.irs.gov/pub/irs-regs/td_9262.pdf)

Final TIPRA regulations published in February 2008: <http://www.irs.gov/pub/irs-regs/td9293.pdf>

[Revenue Procedure 2006-42](#) (10/2006) - Provides rules for taxpayers to obtain automatic approval to change certain elections to apportion deductions for interest expense and research and experimentation expense under section 861, as a result of the recently enacted domestic production activities deduction under Section 199: <http://www.irs.gov/pub/irs-drop/rp-06-42.pdf>

[Revenue Procedure 2006-47](#) (10/2006) - Provides the methods used as part of calculating "W-2 wages" for purposes of section 199, and reflects changes in the definition of "W-2 wages" for Section 199 purposes made by the Tax Increase Prevention and Reconciliation Act of 2005: <http://www.irs.gov/pub/irs-drop/rp-06-47.pdf>

[Revenue Procedure 2007-34](#) - provides guidance for calculation, allocation and reporting of QPAI and W-2 wages: <http://www.irs.gov/pub/irs-drop/rp-07-34.pdf>

[Revenue Procedure 2007-35](#) - Provides guidance for use of statistical sampling: <http://www.irs.gov/pub/irs-drop/rp-07-35.pdf>

[Revenue Ruling 2007-30](#) - Provides guidance for partnerships engaged in the extraction and processing of minerals within the U.S.: <http://www.irs.gov/pub/irs-drop/rr-07-30.pdf>