

**WISCONSIN DEPARTMENT OF REVENUE  
DIVISION OF INCOME, SALES, AND EXCISE TAX**

**NOTICE OF PROPOSED GUIDANCE DOCUMENTS**

Pursuant to sec. 227.112, Wis. Stats., the Wisconsin Department of Revenue, Division of Income, Sales, and Excise Taxes hereby seeks comment on the proposed guidance document listed in the table below.

**SUBMITTING PUBLIC COMMENTS**

Public comments on proposed or adopted guidance documents may be submitted online at: <https://www.revenue.wi.gov/Pages/contactUs/proposed-Guidance.aspx>.

**DEADLINE FOR SUBMISSION**

The period for public comment for proposed guidance documents ends 21 days after publication in the Administrative Register, unless the Governor approves a shorter commenting period.

<b>Document Number</b>	<b>Document Title</b>
<b>100160</b>	Manufacturing and Agriculture Credit - D. Cost of Goods Sold, Direct and Indirect Costs – Common Questions

State of Wisconsin  
Department of Revenue

# Manufacturing and Agriculture Credit - D. Cost of Goods Sold, Direct and Indirect Costs

**This is a proposed guidance document. The document has been submitted to the Legislative Reference Bureau for publication in the Administrative Register for public comment as provided by sec. 227.112(1), Wis. Stats.**

1. What are examples of direct costs?
2. What are examples of indirect costs?
3. The Wisconsin Statutes indicate that direct and indirect costs include all of the claimant's ordinary and necessary expenses paid or incurred during the taxable year in carrying on the trade or business that are deductible as business expenses under the Internal Revenue Code. Is depreciation included as a direct or indirect cost when computing the credit?
4. Are guaranteed payments to partners considered a direct expense when calculating the manufacturing and agriculture credit?
5. Are state taxes a direct or indirect cost?
6. Are charitable donations/contributions a direct or indirect cost?
7. I was subject to LIFO recapture (or similar change in accounting method) and as a result my cost of goods sold increased. How does this affect the computation of the manufacturing and agriculture credit?
8. Is the five-year subtraction modification for the difference in basis of assets considered a depreciation expense for the MA credit?
9. The amount of depreciation expense for federal and Wisconsin franchise/income tax purposes is different. Is the federal or Wisconsin depreciation expense used when computing the credit?

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## 1. **What are examples of direct costs?**

Direct costs include all of the ordinary and necessary expenses paid or incurred during the taxable year in carrying on the trade or business that are deductible as business expenses under the IRC and identified as direct costs in your managerial or cost accounting records. This includes

depreciation expense computed under the IRC in effect for Wisconsin that are classified as direct costs.

There are no specific examples of direct costs provided in the statutes because not every business operation will account for direct and indirect costs in the same manner. Because of this variability, the determination of direct costs relies, in part, on the taxpayer's accounting records.

In general, direct costs are those costs that directly benefit one specific project or good that is being produced. Examples of direct costs may include: production employee wages, supplies consumed directly in the production process, and costs of consultants used in producing the finished product.

## 2. **What are examples of indirect costs?**

Indirect costs include all ordinary and necessary expenses paid or incurred during the taxable year in carrying on the trade or business that are deductible as business expenses under the IRC, other than cost of goods sold and direct costs, and identified as indirect costs in your managerial or cost accounting records. This includes depreciation expenses computed under the IRC in effect for Wisconsin that are classified as indirect costs.

Similar to direct costs, there are no specific examples of indirect costs provided in the statutes because not every business operation will account for direct and indirect costs in the same manner. Because of this variability, the determination of indirect costs relies, in part, on the taxpayer's accounting records.

In general, indirect costs are costs that benefit more than one specific project or good that is being produced and cannot be easily traced to a single project or good being produced. Examples of indirect costs may include: building rent, legal expenses, business insurance, advertising expenses, accounting and administrative salaries, office supplies, and certain utilities.

## 3. **The Wisconsin Statutes indicate that direct and indirect costs include all of the claimant's ordinary and necessary expenses paid or incurred during the taxable year in carrying on the trade or business that are deductible as business expenses under the Internal Revenue Code. Is depreciation included as a direct or indirect cost when computing the credit?**

Yes, depreciation is included as either a direct or indirect cost when computing the credit.

Depreciation is considered an ordinary and necessary business expense under the IRC, and is therefore included as a cost of generating production gross receipts.

## 4. **Are guaranteed payments to partners considered a direct expense when calculating the manufacturing and agriculture credit?**

If the guaranteed payments represent payments to a partner for services that are directly connected with producing the manufacturing production gross receipts, they would be allowed as a direct expense in computing the credit. However, if the guaranteed payments are paid for a reason not directly related to the manufacturing production gross receipts, they would not be included as a direct expense.

## 5. **Are state taxes a direct or indirect cost?**

Depending on how the expense is classified in the managerial or accounting records, the amount deductible for state taxes under the IRC, as modified for Wisconsin, may be considered a direct or indirect cost.

**6. Are charitable donations/contributions a direct or indirect cost?**

Charitable contributions are not deductible as business expenses under Internal Revenue Code and are therefore neither a direct or indirect cost.

**7. I was subject to LIFO recapture (or similar change in accounting method) and as a result my cost of goods sold increased. How does this affect the computation of the manufacturing and agriculture credit?**

A change in accounting method made for federal income tax purposes must also be made for Wisconsin franchise/income tax purposes if the method is authorized under the Internal Revenue Code. An increase in the cost of goods sold as a result of an accounting change for federal income tax purposes will also result in an increase in the cost of goods sold for Wisconsin franchise/income tax purposes, and the increased cost of goods sold amount will be used in computing the qualified production activities income portion of the manufacturing and agriculture credit.

**8. Is the five-year subtraction modification for the difference in basis of assets considered a depreciation expense for the MA credit?**

No. The subtraction modification is not considered a direct or indirect expense in computing the MA credit. Only amounts that are currently deductible under the IRC in effect for Wisconsin are a direct or indirect expense. The Wisconsin subtraction modification is not an expense under the Internal Revenue Code. For taxable years beginning on or after January 1, 2014, Wisconsin depreciation is computed using the IRC in effect on January 1, 2014.

**Note:** The 50% bonus depreciation does not apply for Wisconsin.

**9. The amount of depreciation expense for federal and Wisconsin franchise/income tax purposes is different. Is the federal or Wisconsin depreciation expense used when computing the credit?**

The depreciation expense to use in computing the credit is the amount of depreciation allowed under the Internal Revenue Code in effect for Wisconsin, so the Wisconsin amount is used.

## Applicable Laws and Rules

This document provides statements or interpretations of the following laws and regulations in effect as of February 18, 2020: Sections 71.01, 71.05, 71.07, 71.22, 71.26, 71.28, 71.30 and 71.98, Wis. Stats.

Laws enacted and in effect after February 18, 2020, new administrative rules, and court decisions may change the interpretations in this document. Guidance issued prior to February 18, 2020, that is contrary to the information in this document is superseded by this document, pursuant to sec. 73.16(2) (a), Wis. Stats.

### FOR QUESTIONS OR COMMENTS CONTACT:

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Guidance Document Certification: <https://www.revenue.wi.gov/Pages/Certification-Statement.aspx>

## Related Links

### Manufacturing and Agriculture Credits

- [General Questions](#)
- [Schedule MA Questions](#)
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