

- What are the requirements for the following deductions: U.S. production activity deduction, dividend received deduction, and net operating loss? Discuss any recent legislative changes.

**U.S. Production activity deduction-** Corporations can take a deduction equal to the percentage times the lesser of the taxable income before the activity deduction or the qualified production activities income for the year. Since 2010 the percentage rate is 9% and the deduction can't be more than 50% of the corporation's W-2 wages.

**Dividend Received Deduction-** This deduction is based on the amount of dividends received and the percentage of the deduction will depend on the amount of the distributing stock owned. A minimum of 20% of the stock or voting power is owned then the deduction would be 80%. If less than 20% is owned then a 70% deduction is allowed. If the corporation dividends that qualify for both the 70% and the 80% deduction, then the corporation must lower the taxable income by the aggregate amount of the 80% dividends before they compute the 70% dividends.

**Net Operating Loss-** defined as the amount of deductions that exceeds its gross income. When figuring the net operating loss, the corporation cannot take a deduction for a carryover or carryback. The corporation cannot take the production activities deduction since it does not have a positive income.

## Response 2

The requirements for the following deductions is as follows:

**U.S. Production activity deduction-** cost of goods sold allocable to these receipts, other deductions, expenses, and losses directly allocable to these receipts, and a ratable portion of other deductions, expenses, and losses not directly allocable to these receipts or to other classes of income.

**Dividend received deduction-** a corporation must include in its gross income any dividends received on stock it owns in another corporation. Corporations that own less than 20% of the distributing corporation's stock may deduct 70% of the dividends received.

**Net operating losses-** no deduction is permitted for a carryover or carryback of an NOL from a preceding or succeeding year.

These deductions must also be calculated in this sequence:

1. All deductions other than the charitable contributions deduction, the dividends received deduction, the NOL deduction, and the U.S. production activities deduction.
2. The charitable contributions deduction
3. The dividends- received deduction
4. The NOL deduction
5. The U.S. production activities deduction

