CITRINCOOPERMAN®

2025

YEAR-END GUIDE FOR MANUFACTURING AND DISTRIBUTION COMPANIES



Creating Future Value with Strategic Planning

Focused on Helping Our Clients Thrive

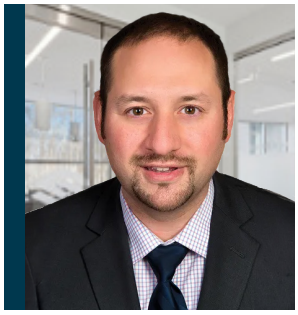
This guide was developed to provide leadership with the tools to help them navigate their future planning. With the One Big Beautiful Bill Act reshaping the tax landscape for manufacturers and distributors, proper planning is essential to ensure your business is prepared for future opportunities. Looking ahead, some considerations for industry leaders include supply chain challenges, high cost of capital, and utilizing changing technologies. It is important for leaders to plan properly and create a strategy to help their businesses withstand future turbulence.

We hope this guide provides you with the necessary information and support to assist you with strategic planning for your business in the upcoming year.

Citrin Cooperman is driven to help our clients that are involved in manufacturing and/or wholesale distribution succeed and achieve both their personal and business goals. We have an extensive background in providing accounting, tax, and advisory services to diverse manufacturing and distribution companies ranging from food and beverage, industrial products, consumer products and retail, and logistics.

Drawing upon our extensive industry experience, we help our clients adopt best practices and offer guidance on strategic decisions such as business transactions (i.e., an acquisition or sale), implementing new and innovative software and information technology (IT) solutions, expanding into new states or countries, navigating the challenges of the global supply chain, or setting up new warehouses and operations.

Sincerely,



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Partner and Co-Leader
Manufacturing and
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Tax Tips and Planning

On July 4, 2025, the One Big Beautiful Bill (OBBBA) was signed into law—a sweeping tax reform package that changed the federal tax landscape. Citrin Cooperman's professionals have extensive experience and deep knowledge in devising tax strategies and responding quickly to the opportunities and challenges that emerge for manufacturing and distribution companies. This section provides insights on the latest tax tips and planning strategies, and the ways in which we can help with tax planning and reporting obligations, as well as how the OBBBA is impacting manufacturers and distributors.

General Tax Planning Considerations



One Big Beautiful Bill Act (OBBBA) Highlights

- The OBBBA extends the following provisions from TCJA that were otherwise set to expire at the end of 2025:
  - » Top individual tax rate continues to be 37% (was otherwise going to revert to 39.6%)
  - » Standard deduction doubling remains
  - » Qualified Business Income (QBI) deduction under Section 199A provides a 20% deduction against pass-through business income remains

- TCJA reduced the tax rate for C corporations from a top bracket of 35% to a flat rate of 21% which was a permanent change and the OBBBA has not changed this tax rate. For pass-through entities that claim the QBI, the top effective income tax rate continues to be 29.6% (80% of 37%).
- Additional areas impacted by the OBBBA that are highlighted in this section include:
  - » Enhanced depreciation incentives for capital expenditures (Section 179 and Section 168)
  - » New incentives for manufacturing facility or plant (qualified production property)
  - » Restoration of immediate deductibility for research and development expenses
  - » Increased cap for deductible business interest (Section 163(j))

401(k)

- Contributions and loan repayments withheld from employees must be paid into the 401(k) plan on, or shortly after, the payroll issued date. Including a profit-sharing feature can incentivize employees to improve their company's performance and provides the company with an additional tax benefit. Additionally, this could potentially be an added benefit to attract and retain employees since it provides employees with additional 401(k) contributions on top of what they are contributing and the company match.
- For 2025, the maximum contribution allowed is $23,500 per individual with additional $7,500 catch up contribution allowed if 50 or over. The total aggregate contributions allowed between employee and employer contributions are $70,000.

Money Purchase Plan

- A **money purchase** plan is a type of defined contribution plan with fixed employer contributions. Unlike profit sharing plans where employers can decide on the total amount to contribute each year, a money purchase plan requires the same fixed percentage of an employee's pay, with larger annual contribution limits compared to other retirement plans.
- Employers can deduct contributions in the tax year they are made, subject to specific limitations. If an employer also sponsors other defined contribution plans, the total amount of deductions for contributions cannot exceed the overall limit of 25% of compensation paid to all participants.

Defined Benefit Plan

- A defined benefit plan provides employees with a fixed, pre-established benefit at retirement. These plans are usually more complex and costly than defined contribution plans; however, employer is often able to contribute, and deduct, a larger amount. The payout is generally based on retirement age, years of service and salary history.

Payroll Forms

- Form I-9: All employees must complete Form I-9 for employee status verification purposes.
- W-4s: Employees should update W-4 forms for the new tax year.

Third-Party Sick Pay

- Include the reportable amount of sick pay paid to the employees by the insurance company on the employees' Form W-2s as well as amount withheld for income taxes.

Health Insurance Premiums

- Premiums paid on behalf of a shareholder who owns more than two percent of the corporation are taxable as wages and are reported on Form W-2. For limited liability company (LLC) members, the premiums are considered guaranteed payments.

Self-Employed Retirement Benefits

- Often in an LLC, self-employment retirement expenses are left in the employee benefit section of the profit and loss statement. These amounts should be considered guaranteed payments, similar to those of the health insurance premiums, as noted above.

Affordable Care Act

- Confirm with your health insurance provider that the coverage provided to your employees meets the requirements under the Affordable Care Act. The service provider should complete **Form 1095 – Employer-Provided Health Insurance Offer and Coverage Insurance**.

Travel and Meal Expenses

- Travel expenses are deductible in full. Meals purchased from a restaurant are 50% deductible. Other meal expenses may be limited, including breakroom snacks. Starting in 2026, meals provided to employees for convenience by the employer are nondeductible unless sold in bona fide sale for full consideration. Expenses incurred for holiday parties, promotions, and on-site employee meals are not limited. Consider separating these expenses accordingly into different accounts: 100% deductible meals, 50% deductible meals, nondeductible meals, and travel.

Entertainment

- Entertainment expenses, such as expenses incurred for amusement, recreation, or membership dues for a club (i.e., golf), are no longer deductible. These should be posted to separate accounts. Business meals incurred at an entertainment event are still deductible subject to limitations noted in the 'Travel and Meal Expenses' section.

Employee Fringe Benefits

- Employee fringe benefits, including transportation and on-site gym fees paid by employees, are no longer deductible. These should be posted to separate accounts. Conversely, employees are not required to report these fringe benefits as income.
- OBBBA permanently extends the suspension of the moving expense deduction and qualified transportation fringe benefit, with the exception of members of the armed forces or intelligence community.



Section 163(j): Interest

- The deduction of interest could be limited for tax purposes.
- Depreciation and amortization are an addback for the purposes of calculating adjusted taxable income related to interest expense limitations for tax years beginning after December 31, 2024.

Section 199A: Partnerships or S Corporations

- Business owners could be eligible for the 20% deduction on qualified business net income from partnerships or S corporations originating from manufacturing and distribution companies.
- In certain circumstances, owners of manufacturing and distribution companies are personally recognizing income related to the business. In order to maximize the Section 199A deduction, the manufacturer or distributor should consider recognizing this income rather than the individual owner.

Section 263A: Uniform Capitalization Rules

- These rules apply to manufacturers and distributors with inventory who are required to capitalize direct and indirect costs allocable to the production costs of property produced or acquisition costs of property acquired for resale, although this does not apply to small business taxpayers with average gross receipts for the last three years of $30 million or less for 2024 (indexed for inflation).

Reserves

- Reserves booked on the financial statements, such as bad debt reserves and inventory reserves, are not deductible for tax purposes.
- Taxpayers must actually realize the loss in order to claim the tax deduction. For instance, worthless inventory needs to be physically disposed of and cannot just be set aside in order to claim the deduction.

Charitable Contributions

- For C corporations, for taxable years beginning after December 31, 2025, charitable contributions will need to exceed 1% of taxable income to be deductible. For all tax years, there continues to be a 10% upper limit with excess contributions available for a 5-year carryforward.
- For flow through entities, partners and shareholders will be subject to 0.5% floor on the deduction of charitable contributions based on adjusted gross income for tax years beginning after December 31, 2025.

Donating Inventory

- The deduction for donated inventory is generally limited to its cost.
- For C corporations, there is the ability to also deduct up to half the property's appreciation if donated for the care of the ill, the needy, or infants. If donated inventory was on hand at the beginning of the tax year, it is treated as a charitable deduction subject to limits on charitable contributions. Otherwise, it is deducted as part of 'cost of goods sold.'

Section 179 and Bonus Depreciation

- The OBBBA legislation increased depreciation limits on capital expenditures under the Section 179 deduction or Section 168 bonus depreciation starting in 2025.
- Section 179 allows taxpayers to deduct qualified fixed assets in full in the year it is placed in service. The 179 deduction limit is $1.25 million for tax years beginning in 2024 and earlier

which is phased out when qualified additions exceed $3.13 million. For tax years beginning after December 31, 2024, the deduction limit increases to $2.5 million and phased out when qualified additions exceed $4 million.

- Bonus depreciation (Section 168) allows fixed assets with useful life of 15 years or less to be expensed in full in the year the asset is placed in service. For assets placed in service on or after January 19, 2025, bonus depreciation can be applied to 100% of the cost. For 2024, the limit was 60% and for the first 18 days of 2025 the limit was 40%.
- These are the federal depreciation rules; however, states have varying degrees of conformity to these limits.

Qualified Production Property: New Incentives for Manufacturing Facility or Plant

One of the largest investments a manufacturer can make is in their manufacturing facility, and the OBBBA is trying to make that easier. The new provision for qualified production property is intended to promote investment in new manufacturing facilities. Taxpayers constructing new buildings, started after January 19, 2025, and before the end of 2029, can depreciate 100% of the cost allocated to the production area, excluding office space, research space, and other non-production areas of the building. The building also needs to be owned by the taxpayer performing the production activity, so leased property doesn't qualify.

This could open an opportunity for joint ventures with real estate developers to leverage the significant benefits of accelerated depreciation on the manufacturing facilities, with the joint venture holding both the facilities and the production activity. This could result in substantial tax savings on a present value basis compared to deductions spread over 39 years.

The purchase of an existing building can also be treated as qualified production property in limited cases. For instance, a production facility used by one company can't be sold to a new manufacturing company and qualify, although some conversions of a building not previously used as a production facility may qualify.

Given the drastic difference between depreciating a building over 39 years versus 1 year, manufacturers looking for new production space will be motivated to construct new space rather than purchase existing space, because the ability to get the benefits of accelerated depreciation on purchases of existing space is restricted. It will be interesting to see what this does to the market for those looking to sell their production buildings.

Research and Development (R&D) Expenses

- Since 2022, taxpayers have been required to capitalize research expenses and amortize them over 5 years for domestic research (15 years for foreign research).
- Starting in tax years beginning after December 31, 2024, taxpayers can deduct domestic research expenses in the year incurred, eliminating the need for capitalizing.
- For small taxpayers with average gross receipts of $31 million or less over the last 3 years they have several options to accelerate deduction of previously capitalized domestic research expenses. They can amend prior year returns to fully deduct the expenses in the year incurred or accelerate the remaining amortization deduction over a one-year or two-year period starting in 2025. Taxpayers will need to conduct an analysis to determine the best option.

Federal Credits and Incentives

There are a variety of federal credits and tax incentives available for manufacturing and distribution companies. The list below provides an overview of some of the timely federal tax credits and incentives that are available. Citrin Cooperman's Federal Tax Credits and Incentives Practice can help your business navigate the various opportunities available.

- Section 41 – Research and Development (R&D) Tax Credit
  - » Taxpayers performing qualified research activities and incurring qualified research expenses may be eligible to claim federal (and state) R&D tax credits.
  - » Section 280C – For tax years beginning after December 31, 2024, taxpayers will be required to reduce their deductible research and experimental expenditures (R&E) by the amount of the R&D tax credit. There will no longer be an option to elect a reduced credit in order to fully deduct R&E expenditures.
- Section 48 – Energy Credit
- Section 48D - Advanced Manufacturing Investment Credit
- Section 179D – Energy Efficient Commercial Buildings Deduction (construction must begin by June 30, 2026)
- Other credits and incentives included in the Inflation Reduction Act of 2022 (IRA)



Employee Stock Ownership Plans (ESOPs)

- Business owners looking to sell all or a portion of their C or S corporation have the option to sell to an ESOP, which also enables their employees to become partial or full owners of the company.
- There are additional costs associated with an ESOP, however, company contributions to the ESOP are tax deductible if technical requirements are met, potentially reducing taxable income for selling shareholders.
- If a company is a C corporation at the time of sale to the ESOP, the proceeds from the sale are reinvested in qualified replacement property (other qualifying securities) and the selling shareholder can defer taxation on the gain under Section 1042. This taxable gain is only beneficial to C corporations and not S corporations. Careful planning is needed to ensure the ESOP qualifications are met and that it produces the desired outcome for the selling shareholders.

Qualified Small Business Stock

- C corporation shareholders looking to sell their stock may be eligible to exclude a portion of their gain from being subject to federal tax.
- In general, the stock needs to have been originally issued to the taxpayer and depending on when the stock was acquired, an exclusion of 50% to 100% may apply.
- For stock issued after July 4, 2025, stockholders can exclude up to $15 million of gain. For stock issued prior to this date the limit is $10 million
- For stock to qualify, the corporations aggregate gross asset threshold is $75 million, indexed for inflation.

Gifting

- For business owners looking to pass ownership down to the next generation, rather than selling, gifting ownership is also an option.
- For federal purposes, each individual can gift up to $13.99 million (limit for 2025) over their lifetime. For tax years starting after December 31, 2025, the limit increases to $15 million per person, indexed annually for inflation. There could be state tax implications since some states have gift taxes with lower lifetime exemptions.
- This lifetime exemption is in addition to the annual exclusion allowing gifts of $19,000 per year per individual.

Form 1099

- Review all payments made to unincorporated entities and certain service providers during the year and determine who was paid $600 or more through the end of 2025 and for payments made after December 31, 2025, the minimum threshold increases to $2,000. Verify that a W-9 is on file for all vendors. Consider sending a copy of a blank W-9 to all vendors who were paid in the last quarter of the year.



- Due dates:
    1. Form 1099-Misc: Issued to recipient(s) – January 31, 2026, filing with IRS. If you choose to file paper forms, the deadline is February 28, 2026. The electronic filing deadline is on March 31, 2026, for the 2025 tax year.
    2. Form 1099-NEC: Issued to recipient(s) – January 31, 2026, filed with IRS January 31, 2026.
    3. No extensions are available for filings of 1099-NEC.
    4. Form 1099 must be issued to lawyers regardless of whether or not the lawyer or law firm is an organized corporation, partnership, S corporation, etc.

Quarterly Estimates

- Make sure the quarterly estimates due to federal, state, and local jurisdictions (if applicable) are paid timely.
- Consider reviewing your quarterly financial statements to determine any notable increases in income and to prevent any unexpected increases in estimated payments at the end of the year. The IRS has raised interest rates for any payments not received timely.
- These estimated tax penalties (based on current interest rates) are not deductible for tax purposes.

State and Local Tax Planning

The manufacturing and distribution industry historically enjoyed two major state and local tax protections when operating on a multistate basis:

1. The physical presence requirement for being compelled to collect sales tax; and
2. Public Law (PL) 86-272-a federal prohibition against a state or locality from imposing a net income tax when a business limits its activities to making sales and conducting certain sales activities in the jurisdiction in question.

However, the continued reliance on e-commerce and digital activities caused the 'sales tax physical presence' requirement to be eliminated by the U.S. Supreme Court. Conducting various internet-based or digital activities may cause a business to lose its protection under PL 86-272. Additionally, many jurisdictions have historically imposed or recently enacted taxes which are not imposed on net income and therefore, not covered by PL 86-272 protection.

The result is a maze of state and local tax rules which need to be adhered to as a business expands and conducts multistate activities. These range from rules related to whether a business is subject to tax (referred to as nexus), how revenue is sourced when calculating income/franchise or sales tax, what products are subject to sales tax, or what exemption certificates need to be collected or provided.

Citrin Cooperman's State and Local Tax Practice can help your business navigate these complex channels and provide strategic advice when organizing, growing, expanding, and potentially selling your business.

This section highlights key state and local tax considerations manufacturing and distribution business leaders should focus on.





State and Local Tax Considerations

Indirect Tax

- Review out-of-state sales (in dollars) and annual volume of transactions for determining sales and use tax nexus.
- Review of any use tax obligations where sales tax was not paid but should be due.
- Review potential manufacturing, processing, research and development, packaging equipment, or supplies tax exemptions for maximum savings.
- Seek professional assistance and implementation with automated sales tax compliance solution.
- Seek professional advice and recommendations for exemption certificate collection practices.
- Review locations where operations and inventory are maintained to seek assistance in understanding and complying with personal property tax filing obligations.
- Review uncashed wage checks, vendor payments, customer credit balances, and gift cards to assess whether the business may have unclaimed property filing and remittance obligations in multiple states.



Income and Business Activity Tax

- Review of out-of-state sales (in dollars) for determining income, franchise, and gross receipts for tax nexus.
- Determine proper sourcing of products when third-party logistics, interim warehousing, and drop-shipments are involved for purposes of computing the applicable tax due.
- Seek professional analysis and guidance related to whether company activity is protected under PL 86-272.
- Forecast tax impacts from remote employees or changes in product distribution channels.
- Determine whether specialized tax rates and apportionment formulas apply to certain manufacturing and logistics businesses.

State Pass-Through Entity Tax (PTET)

- Most states that impose a personal income tax on business income have adopted pass-through entity taxes (PTET) that enable flow-through businesses, such as S corporations and partnerships, to elect to pay and deduct the income taxes on the owners' share of income at the entity level, rather than at the personal income tax level. These taxes were designed to help circumvent the original $10,000 cap on the state and local tax deduction enacted under the TCJA, which has been subsequently lifted to $40,000 for tax year 2026 with a phase-out beginning at modified adjusted gross income of $500,000.
- The PTET rules are complicated and differ from state to state in terms of who may elect in, who may opt-out, how to elect in, how the tax base is computed and whether individual owners still file state income tax returns.
- PTET payments are only deductible in the year in which they are paid pursuant to IRS Notice 2020-75. It is imperative to ensure all PTET payments are paid before year-end if the taxpayer(s) are expecting the deduction for the current year.
- Different states have hard deadlines on when to make a PTET election (such as California, Maryland, New Jersey, New York). Be cognizant of the deadline date and method of electing so that the entity does not miss out on the opportunity to participate in the filing.



Credits and Incentives

When a manufacturing or distribution business opens a new location, hires 20 or more employees, or expends a significant amount of funds in capital investment for equipment, retrofitting, or real estate improvements — there are potential state and local tax incentives which may be available.

- Some incentives are statutory, meaning they are available to a business upon engaging in a particular activity (like hiring or investment) and completing a form.
- Other incentives are negotiated and require a formal application and discussion with the relevant jurisdiction.
- Careful planning and evaluation should occur where a business is planning a major new location, relocation, or major capital investment.
- Make sure not to execute any lease or purchase agreements prior to applying for a particular incentive where required in a relocation or new location project.
- Even when the business may not be able to use an income tax credit, most credits may be assignable and sold for cash.
- Sales tax and personal property tax exemptions are available for manufacturing, processing, and research and development.

International Tax Planning

Businesses in the manufacturing and distribution segments are generally engaged in some level of cross-border commerce, whether by reason of their customer base, supply chain, ownership and access to foreign capital, or other factors. This typically exposes the businesses to U.S. and foreign regulatory regimes, including direct income tax, indirect tax, excise or similar taxes, customs and duties, and other levies, as well as other non-tax regulatory regimes that can have significant importance to a particular business. Moreover, any combination of the U.S. business, its foreign affiliates, and its investors and stakeholders may be impacted in different, and often unintuitive, ways.

Citrin Cooperman's **International Tax Services Practice** can help your business navigate and understand these complex matters, while providing strategic advice when organizing, growing, expanding, and potentially selling your business.

Value Chain and Supply Chain Optimization

Manufacturers and distributors frequently have complex value chains and supply chains that are principally driven by business needs and constraints. Due to changes and uncertainty arising from tariff policies, sourcing needs, access to foreign markets, and other considerations, businesses may have modified or may plan on modifying their value and/or supply chains in 2025, 2026, or beyond. U.S. and local country tax considerations of any changes, whether implemented or proposed, should be carefully understood, documented, and optimized to the extent reasonably possible in order to generate enhanced results and cash flows from operations.

Transfer Pricing

Transfer pricing rules and guidelines are commonly prescribed by tax authorities for the purpose of establishing arm's length pricing for controlled transactions between related parties. The implementation of appropriate transfer pricing methodologies, as well as the proper documentation and monitoring thereof, are essential to establishing income tax positions that will be

respected multilaterally by different taxing jurisdictions. Failure to do so can result in detrimental outcomes to a business, such as double-taxation and potential imposition of material penalties. This also can cause undue pressure on the business' cash flows and the potential for reputational harm.

Transfer pricing studies and benchmarking analyses are fundamental to supporting and defending a taxpayer's income tax positions to which the arm's length standard applies. Handled appropriately, transfer pricing can be an important tool for optimizing income tax outcomes, tax position certainty, group cash flows, and other non-income tax objectives.



EXPORT INCENTIVES

Foreign-Derived Intangible Income (FDII)

The FDII deduction may reduce the effective tax rate on the net income realized from the sale of goods, licensing of intangibles, and performance of services by domestic corporations to foreign customers.

For taxable years beginning before January 1, 2026, the FDII deduction is 37.5% of net foreign deduction eligible income in excess of the corporation's deemed tangible income return on depreciable assets. The FDII deduction has the potential to reduce the effective federal income tax rate of a domestic corporation on qualifying income from 21% to 13.125%. However, in addition to other important changes to the incentive, the FDII deduction (renamed the Foreign-Derived Deduction Eligible Income or "FDDEI" deduction) is reduced to 33.34% for taxable years beginning after December 31, 2025, thereby reducing the potential effective tax rate on eligible income from 21% to 14% in future years. The FDII deduction creates a permanent tax savings; however, there are complex rules that apply in order to establish eligibility and support for the deduction.

Domestic International Sales Corporation (IC-DISC)

An IC-DISC is a domestic corporation that acts as a deemed sales agent for another U.S. manufacturer or distributor that exports domestically produced goods and that is deemed

to pay a commission to the IC-DISC in connection with qualifying export sales activities. This type of entity can provide various benefits, including the reduction of the effective federal income tax rate on pass-through entity income (e.g., partnerships, LLCs taxed as partnerships, and S corporations) allocated to its owners and the shifting of certain income to different shareholder groups in order to specially incentivize them or facilitate succession or other planning. As a general rule, meaningful IC-DISC benefits are only available to individual shareholders, but the IC-DISC can be used in conjunction with pass-through entities and other domestic corporations in order to achieve export-related tax benefits, as well as other objectives.

CONTROLLED FOREIGN CORPORATIONS (CFCs)

Global Intangible Low-Taxed Income (GILTI) and Subpart F Income

These are two of the anti-deferral regimes that apply to CFCs and their U.S. shareholders and that commonly have relevance to manufacturing and distribution businesses. Both GILTI and Subpart F income may give rise to current year "dry" income inclusions of U.S. shareholders of CFCs that are based on the current year earnings of the CFCs. This occurs irrespective of whether there has been an actual distribution from the CFC to the U.S. shareholder.

Subpart F income is income of a CFC arising from assets or activities of the CFC that are deemed to have tax avoidance characteristics, irrespective of whether tax avoidance is, in fact, in any way a motivation. Subpart F income is determined on an annual basis and is taxed at the highest rate applicable to a taxpayer (e.g., individuals at ordinary tax rates and domestic corporations at 21%). Certain exceptions may apply to exempt income that would otherwise have been characterized as Subpart F income. The relevant rules are complex and unintuitive, thereby requiring careful analysis of specific facts and circumstances of the business.

GILTI is income of a CFC that is not, among other things, Subpart F income of the CFC. GILTI is determined on an annual basis and is generally taxed at the highest rate applicable to a taxpayer (e.g., individuals at ordinary tax rates and domestic corporations at 21%). However, for taxable years of a CFC beginning before January 1, 2026, a domestic corporation U.S. shareholder of the CFC is allowed a deduction of 50% of its GILTI inclusion amount, which has the potential to reduce its effective tax rate on the specific item of income from 21% to 10.5%. However, in addition to other important changes, for taxable years of a CFC beginning after December 31, 2025, the GILTI (renamed Net CFC Tested Income or "NCTI") deduction is reduced to 40%, which has the potential to reduce its effective tax rate on its NCTI from 21% to 14% in future years. Individual shareholders of CFCs are generally not eligible for the deduction unless they make a specific tax election for the year of the GILTI inclusion (i.e.,

Section 962 election). The mechanics for computing GILTI/NCTI, which is calculated at the shareholder level, are complex and intensive.

For purposes of determining the amount of GILTI inclusion of a U.S. shareholder of a CFC, the CFC is subject to the general rules of Section 163(j) that limit the deductibility of an entity's interest expense. However, there are certain mechanisms, such as the CFC grouping election, that may provide for enhanced interest expense deductibility in certain circumstances.

Both GILTI and Subpart F income may be eligible for an exclusion under each regime's high tax exception rules. Careful consideration should be given to both the evaluation of eligibility to make the high tax exception election and the broader considerations of doing so.



OTHER INTERNATIONAL CONSIDERATIONS

Foreign Tax Credits

U.S. persons are generally taxed on their worldwide income. This can include:

- Income earned directly by the taxpayer;
- Income allocated to the taxpayer by a pass-through entity; and
- Deemed income inclusions from foreign corporations in which the taxpayer is a shareholder.

Meanwhile, the same item of income may also be subject to tax in a foreign jurisdiction under its rules and regulations, thereby subjecting the item of income to double taxation.

When there is an instance of double taxation, a foreign tax credit (FTC) may be available to reduce the U.S. federal income tax attributable to the foreign source item of income and thereby reduce or eliminated the effect of double-taxation. The ability to claim an FTC is paramount to minimizing a U.S. person's federal income tax liability on income that has already been subjected to taxation in a foreign jurisdiction. The ability of a U.S. person to claim an FTC for a foreign tax paid or accrued is subject to the U.S. person's annual FTC limitation, the determination of whether a particular foreign tax is an eligible foreign income tax and the determination and documentation of the U.S. person's annual FTC limitation(s) are complicated and subject to a complex set of rules. The proper or improper application of the relevant rules can have a material effect on the determination of the U.S. person's final U.S. federal tax liability, thereby resulting in either the optimization or incorrect calculation of the tax liability. Careful analysis of specific facts and applicable tax law by an experienced professional is essential.



Foreign Exchange Considerations

U.S. persons with foreign operations may be required to recognize foreign exchange gains or losses to the extent their foreign operations transact in a functional currency other than the U.S. dollar. For U.S. taxpayers that carry out trade or business activities through a foreign branch, the rules for computing foreign exchange gains or losses are complex and unintuitive in their application and administration. Careful analysis of specific facts and applicable tax law by an experienced professional is essential.



Transactions, Mergers, and Acquisitions Planning

According to Citrin Cooperman's 2025 Manufacturing and Distribution Pulse Survey Report, 48% of industry business leaders who responded are planning to sell their business in the next three years. In this section, we discuss how leaders can build value in their business when preparing for a transaction.

Preparing for a Transaction

Financial Preparedness

- Businesses should ensure that their financial statements are accurate, GAAP-compliant, and ideally audited or reviewed by an independent CPA firm. Key areas to address include reconciling all major accounts, resolving prior-period adjustments, and eliminating non-standard journal entries.
- A normalized EBITDA bridge should be prepared, clearly adjusting for one-time, non-operating, or discretionary expenses, supported by proper documentation.
- Companies looking to add value to their business in a sale transaction need to have written policies and procedures manuals that define roles and responsibilities, set expectations, and ensure compliance with those requirements. Policies and procedures facilitate comprehensive due diligence, enabling informed investment decisions in transactions.
- Aligning operations and objectives while ensuring a smooth transition with minimal disruption is vital in post-merger integrations.

Working Capital

- Working capital is instrumental in determining the financial worth of a corporation and operational proficiency. It illustrates how well short-term assets and liabilities are managed.
- The acquirer in a transaction frequently requires the seller to retain a specified amount of working capital. This ensures uninterrupted operation and the ability to fulfill short-term obligations.



Operational Readiness and Scalability

- Businesses should ensure the sales process is consistent and efficient. Implementing systems such as enterprise resource planning (ERP) and customer relationship management (CRM) platforms helps ensure process consistency and data reliability. Sales infrastructure needs to be scalable overtime to increase the value of your business in a sale transaction.
- Measure the performance of the sales process monthly through key performance indicators (KPIs) that are tailored to meet the businesses' objectives, and ensure these metrics are regularly monitored and actionable.
- Important KPIs include monthly sales growth, average profit margin, sales pipeline, product performance, customer retention and churn rates, and customer acquisition costs.

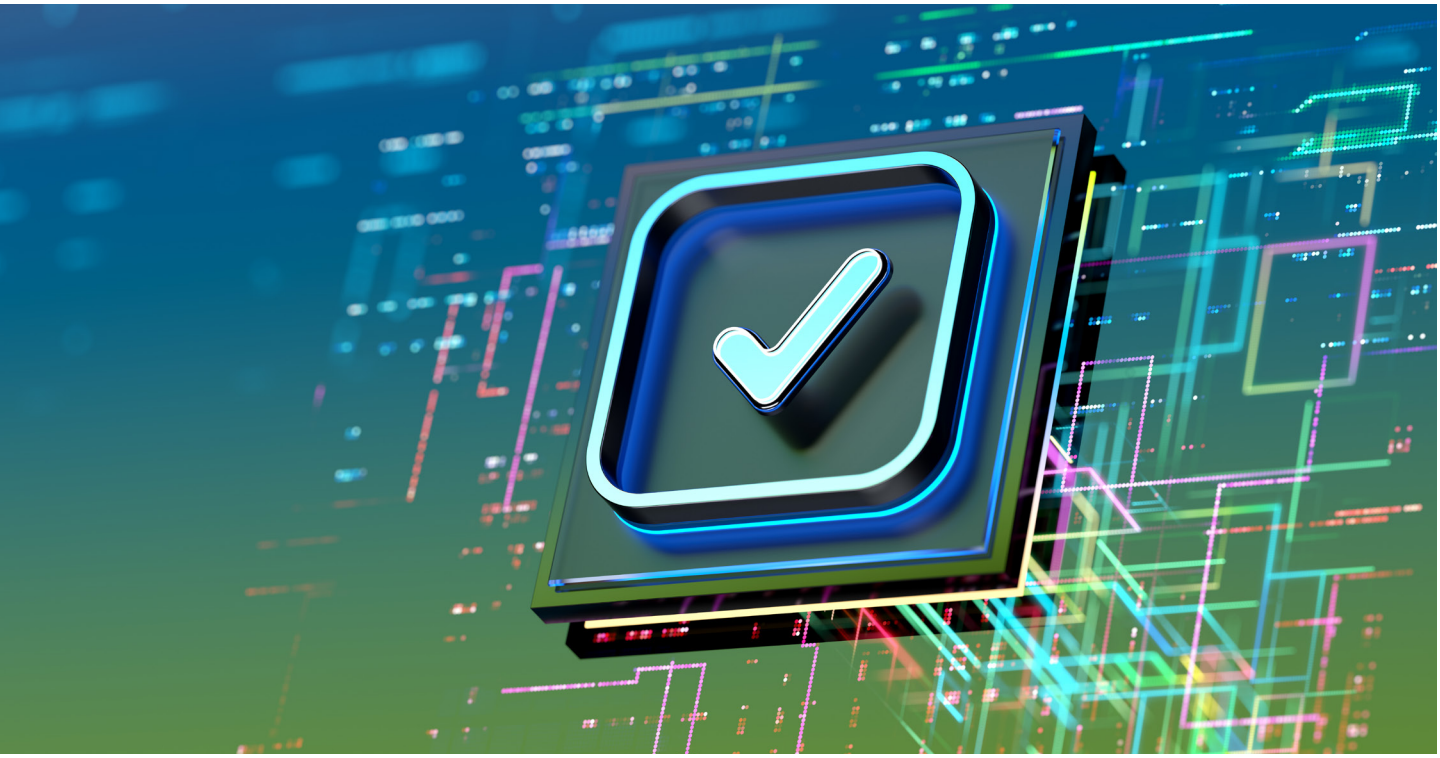
Talent and Organizational Stability

- The structure of the corporation directly reflects profitability. Maintaining an optimal structure ensures maximizing profits and efficiency throughout the business.
- Ensure that the right talent is in place in the organization's structure. Companies should define key roles and responsibilities, ensure critical functions are not overly reliant on founders or a few individuals, and implement succession plans for leadership continuity. This helps ensure that the acquirer can have a smooth transition and continue the strategic objectives. It also helps the integration process run smoothly if the talent is in the right place before the acquisition.

Technology

- Confirm that any ERP systems in place are up to date and optimal for the business. Technology has rapidly advanced in the last five years, specifically with artificial intelligence (AI).

- Companies are now using AI to extract external data from suppliers and customers to use that data to predict customer demand, as well as supplier delays. If these systems cannot be added to your existing ERP platforms, your company is at a strategic disadvantage.
- Effective technology tools provide a platform for rapid decision-making and document identification.



Mergers and Acquisitions Tax Planning

Tax considerations have become a significant focus in mergers and acquisitions (M&A) transactions, both on the buy-side and the sell-side. The need for a properly structured transaction is critical to a successful deal. Citrin Cooperman's **Mergers and Acquisitions Tax Practice** provides clients with customized tax structuring, tax planning, and compliance services to help them accomplish their objectives when assessing their business and transactional strategy.

Below are a few areas of focus for manufacturing and distribution business leaders who may be contemplating a transaction.

Pre-Transaction Tax Planning

- It is ideal for tax subject matter specialists to get involved as soon as possible, preferably before there is an offer (i.e., letter of intent, initial offer of intent, term sheet, etc.), as options for pre-transaction tax planning may be limited once an investment banker has been engaged or there is an executed offer.

- Involving an M&A tax professional during the pre-transaction period can allow your business to receive consultation on any tax opportunities or implications that may result from the potential transaction.
- Consulting with M&A tax professionals at the point of formation can help identify opportunities to maximize tax benefits during the life cycle of the business as well as upon exit.

Tax Modeling and Projections

- The buyer and seller may have conflicting preferences as to how the transaction is structured legally and/or for tax purposes. For example, a buyer may prefer a transaction to be treated as an asset acquisition for tax purposes, while a seller may prefer an equity transaction for tax purposes.
- An M&A tax professional can provide transaction structure assistance with gross-up tax models, reflecting the "make-whole" payment to seller or buyer, effecting present value of the tax benefits and/or detriments of one or both transaction structures.
- As a result of the PTET regime offered in over 34 states, an asset sale can be potentially beneficial to sellers and, therefore, it is recommended to always discuss the value of this gross-up tax model with your tax professional.
- One major driver of the tax outcome to both buyer and seller can be the purchase price allocation methodology. Involving an M&A tax specialist to model these implications and advise on preferred methodologies prior to closing can alleviate any post-closing disputes and unintended tax consequences.

Agreement Review Support

It is crucial to have an M&A tax professional review the purchase or merger agreements prior to the closing for language and items that may impact tax reporting, tax treatment of certain items, and purchase price allocations, as well as responsibilities of (and/or restrictions on) each party to the transaction as it relates to those items.

Accounting, Inventories, and Expenses

The following section explores some important accounting and financial statement matters that can help create quick and effective closing processes. Accounting continues to get more complex — adding time to monthly or annual closing can create delays in decision making for executives.

Preparing for the Year-End Close

Considerations to help your business prepare for an efficient year-end close include:

Inventory

- Cycle counting versus full counting
  - » **Cycle counting** is a method where a subset of inventory is counted periodically throughout the year. This allows discrepancies to be identified and addressed early, reducing the year-end workload.
  - » **Full counting** is a complete physical count of all inventory items at year-end. This method can allow for unexpected discrepancies to appear. This is becoming an exception even though it is still used for small inventories.
  - » Third-party warehouses allow specialists to manage and handle all inventory. This eliminates the risk of capital investment in an internal warehouse that may not have the proper staff to manage it. If a company uses third-party warehouses, the inventory held at these locations should be reconciled monthly between the company's perpetual inventory against the warehouse's perpetual inventory.
  - » If full physical inventory counts at year-end causes warehouses to shut down and shipments to be paused, management should move to cycle counting to prevent any stoppage of commercial activity.



- Reserves for slow moving inventory
  - » Reserves for slow moving inventory create a buffer against potential losses by estimating the value of inventory unlikely to sell at or above full cost.
  - » Establishing a consistent process for estimating reserves on inventory will reduce the time to analyze and adjust this reserve at year-end.
  - » At least quarterly, management should examine the age of its inventory, inventory turnover, and the profit margin on inventory to estimate the required reserves. In this process, if any of the inventory is not sellable, management should write off and dispose of those items to be able to take the tax deduction and create capacity in its warehouse for products that are better performing.
- Reserves for returned inventory
  - » Reserves for returns estimate the cost of products customers might return in the future. This reduces recognized revenue at the time of sale, providing a more accurate picture of financial performance and preventing the need for significant adjustments.
  - » Reserves for returns can be time consuming to develop an estimate. It is an intensive analysis in which you analyze your goods returned, when those sales occurred, and if those products were put back into inventory.
  - » Management should establish a monthly process for analyzing its returns to build the data needed to create a reserve for returns.
  - » Waiting until year-end to start this analysis can cause delays in delivering financial data or using improper financial data for decision making (i.e., bonuses, distributions, etc.).
- Lower of cost or net realizable value
  - » Management should evaluate whether inventory is stated at the lower of cost or net realizable value to appropriately capture any inventory adjustments.

» Reviewing sales subsequent to year-end is a good indictor of whether your inventory is overstated.

Lease Modifications

- It is important to monitor lease agreements for possible modifications as an adjustment to the lease assets will have to occur.
- Examples of lease modifications are lease extensions, early lease terminations, changes of timing in lease payments and leasing of additional space in the same building.

Additions and Disposals of Fixed Assets

- Accurate recording of each addition or disposal of fixed assets is needed for the correct calculation of total assets and the amount of depreciation. This directly impacts the balance sheet, which is crucial to year-end financials.
- Disposal of fixed assets can alter taxable income for the year. A gain on a sale of an asset increases taxable income, potentially raising the tax liability. A loss on a sale can reduce taxable income.

Credit Policies and Accounts Receivables

- Credit policies determine the terms and conditions of extending credit to customers. A lenient policy could lead to an increase in accounts receivable and bad debts, which would be written off at year-end.
- A well-managed policy promotes minimal bad debt and timely payments. Credit policies should be reviewed regularly by management and the commercial team to ensure they are effective at preventing collection issues from customers.
- Ensuring all receivable accounts and doubtful receivables are accurately recorded is imperative. The aging of receivables is recognizing what amounts are still outstanding along with the amount of time they have been outstanding for. This allows for educated decisions to take place on whether cash will be received or not.
- Companies need to have a consistent policy for estimating reserves.
- Under the latest accounting standards, reserves need to be estimated on the day sales are recorded rather than when the losses are probable under old accounting standards. Management will use historical loss rates, current and future economic conditions, and its risks categories of receivables to estimate this reserve. Companies should keep several years of rates to calculate an average for the current year.

Budgeting and Projections

- In preparing its budgets and projections, management should include several scenarios that incorporate different opportunities and obstacles for the following year. This can help management in its decision-making because you can use those opportunities to fine tune the budget and you can use those obstacles to prepare responses well in advance of them occurring.
- The budgeting process should include cash flow projections to assist in managing cash. The budgets also need to be agile and should be adjusted monthly for actual results and new information that is presented to management.

Closing the Year-End

Financial Reporting and Reconciliation

- **Cash**
  - » The reconciliation of cash accounts ensures all deposits, withdrawals, and outstanding checks are accurately represented. This has a direct impact on the company's reported liquidity.
- **Accounts Receivables**
  - » Reconciling at year-end ensures the reported amount on the balance sheet accurately reflects the money owed by customers.
  - » When discrepancies and potential bad debts are discovered, the company gains awareness of their potential credit losses. This assists the budgeting and forecasting in the subsequent year.
- **Inventory**
  - » Financial reporting is dependent upon accurate inventory valuation. Reconciliation ensures the physical inventory count matches the company's records. The company should also pay special attention to any inventory in transit, especially if goods are being shipped to the company via ocean freight.
  - » Make sure reserves are properly updated at year-end for any changes in facts that exist.
- **Fixed Assets**
  - » Reconciliation of fixed assets verifies accurate depreciation expense allocation throughout the year. This confirms the values that are presented on the balance sheet.
- **Accounts Payables and Accrued Expenses**
  - » Ensuring that all supplier invoices are valid and no duplicate payments exist leads to accurate expense reporting on the income statement.
  - » Year-end reconciliation confirms that the true cost of goods sold is illustrated along with accurate operating expenses.

» Reconciliation of accrued expenses verifies they are recorded in the proper accounting period. This adheres to the matching principle which requires expenses to be recognized in the same period as the revenue they generate.

» Companies should pay special attention to professional services that may have rendered services within the calendar year but are billed after year-end for possible accruals to reflect the most accurate financial performance.

» This process can directly impact the company's profitability on the income statement and its financial obligations on the balance sheet.

- **Related Party Transactions**

» Accurate representation of all transactions ensures proper identification, documentation, and valuation. Transparency with related party transactions strengthens the financial statements.

- **Intercompany Transactions**

» Intercompany transactions represent transfers of goods or services between different entities within the same parent company.

» Reconciliation certifies these transactions are eliminated from consolidated financial statements. Preventing the same revenue and expense from being counted twice. If companies are purchasing inventory from a consolidated subsidiary, management should pay special attention to eliminating any profit held in inventory at year-end.

- **Retained Earnings**

» Ensure that retained earnings roll forward is accurate and correct

- **Financial Statements**

» Companies should review the balance sheet and profit and loss (P&L) to determine if all entries have been posted and if unusual balances or fluctuates exist.

- **Timeline**

» Set realistic and hard deadlines for preparation, reconciliations, and review of journal entries.

» Define tasks and ownership of these tasks.

» Communication is key and not only to the executives but to all relevant departments.



About Us

Inside Citrin Cooperman's Manufacturing and Distribution Industry Practice

Citrin Cooperman is proud to be home to one of the leading **Manufacturing and Distribution Industry Practices** in the country. Our dedicated professionals leverage deep industry expertise to provide a full range of accounting, tax, and advisory services to assist clients with achieving their business goals.

We strive to deliver value to manufacturing and distribution companies by helping leadership make informed decisions that improve efficiencies, reduce costs, and ultimately improve the bottom line. Our team is well equipped to help your company plan for an effective year-end so you can focus on what counts — growing a thriving business.

We specialize in serving manufacturing and distribution companies in the following sectors:

- **Consumer Products and Retail**
- **Distribution and Logistics**
- **Food and Beverage**
- **Industrial Products**
- **Manufacturing**

About Citrin Cooperman

Citrin Cooperman is one of the nation's largest and fastest-growing professional services firms. Since 1979 our daily mission has been to help middle-market and enterprise companies, and high-net-worth individuals find success in their business and personal financial lives through our proactive guidance, specialized services, and passion for excellence. Rooted in our core values, we deliver a comprehensive, integrated business approach, including tailored insights throughout the lifecycle of our clients. Whether your operations and assets are located around the corner or across the globe, we provide new perspectives on strategies that help you achieve your short- and long-term goals. With over 30 offices and more than 3,500 professionals, Citrin Cooperman is included in the "Top 20 Firms" by *Accounting Today*.



Meet the Contributors



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John has diverse experience providing accounting and assurance services to middle-market businesses and their owners. His clients span the manufacturing, wholesale distribution, retail, e-commerce, and service industries.



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Omar is an experienced professional, providing a wide variety of accounting, audit, and consulting services to private clients in a number of specialized industries, including manufacturing and distribution.



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Nichol provides high-level tax planning and consulting services related to buy-side, sell-side, and restructuring transactions involving private equity firms, closely held businesses, business owners, and high-net-worth individuals within the manufacturing, distribution, technology, wholesale, retail, cannabis, healthcare, real estate, staffing, and professional services industries.



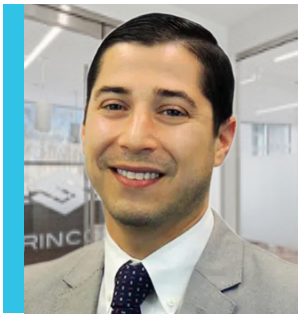
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Michael has deep experience in working with closely held businesses, assisting both the business and owner on tax compliance, consulting, planning, and transactional services, as well as with high-net-worth individuals and their families.



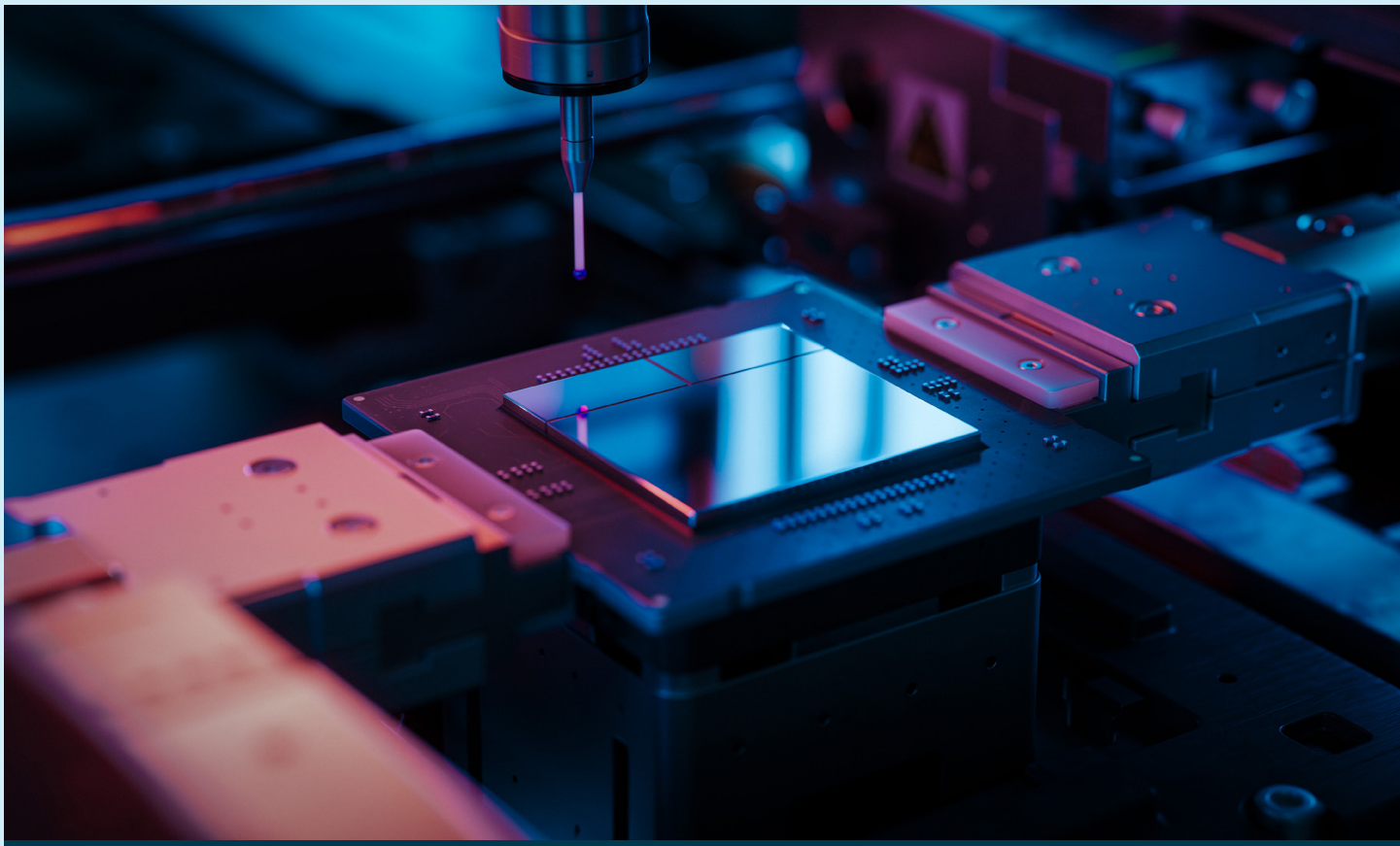
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Jaime provides consulting advice to businesses and individuals on income tax, sales tax, gross receipts tax, property tax, realty transfer tax, and credits and incentives issues. Jaime helps companies not only identify potential compliance issues and tax reporting exposures, but also assists with identifying and securing pro-active refunds, tax credits or abatements, and other incentive opportunities.



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