

Window is closing to amend returns for DPAD

The window of time is closing for pharmacies that compound to amend previous returns for Internal Revenue Service Code Section 199, or the Domestic Production Activities Deduction.

Section 199 provided a tax break to taxpayers who manufactured products for resale and paid employees to assist in the process. Under prior law, pharmacies that compound were considered manufacturers and were eligible for this valuable deduction. **If you did not take this deduction in the past but were eligible, you still have a small window of time to see if this deduction applies to your pharmacy.**

Unfortunately, the Section 199 deduction has been repealed for tax years beginning after Dec. 31, 2017. Those pharmacies that compound and *were* taking the deduction are no longer permitted to do so. Section 199 was replaced with Internal Revenue Service Code Section 199A, or the Qualified Business Income Deduction ([See our video on QBID](#)). This change will impact many pharmacies, not just those that compound.

A taxpayer generally has two years to amend prior year tax returns. Amending prior year tax returns will allow you to claim the DPAD deduction, if eligible, and recoup taxes already paid. However, before you amend a prior year tax return to claim a missed deduction, you should be aware of the following key areas:

1. Make sure your books, records, and prior year tax returns are complete and accurate. An amended return may increase your chance of an audit. You should be comfortable with your pharmacy and personal books, records, and tax returns before embarking on this process.
2. Make sure the deduction is worthwhile. Generally, a pharmacy with compounding revenues with more than 10 percent of total revenues will find it worthwhile to claim the deduction. If compounding revenues are less than 10 percent of total revenues, it may not be sensible to amend. If compounding revenues are more than 10 percent of total revenues, the deduction becomes more meaningful. With that said, due to the previously mentioned risk concerning amending a return with the IRS, a taxpayer may want to increase the threshold to 15 percent.
3. Work with a certified public accountant or tax professional who understands Section 199. They must know how it is calculated, which method to use, and how it may impact pharmacies. Understanding the complexity of Section 199 is paramount to maximizing the deduction. If your CPA or tax professional missed the deduction initially, you may not be working with someone competent in this area of tax law. Talk to our tax planning team with any questions about the repeal of Section 199 or about the new Section 199A deduction.

A version of this article by Scotty Sykes, CPA, was previously published in NCPA: https://www.sykes-cpa.com/wp-content/uploads/2019/02/APDEC18-Focus_Compounding_IRS_Section_199_Repeal.pdf