

Form 8903 Domestic Production Activities Deduction

The following example of Form 8903 was prepared using the small business simplified overall method. See the instructions for Form 8903 for more information.

The domestic production activities deduction (DPAD) is generally 9% of the lesser of a taxpayer's qualified production activities income for the tax year or an individual taxpayer's adjusted gross income (also adjusted gross income for an estate or trust; taxable income for all other taxpayers) for the tax year. However, the DPAD generally cannot be more than 50% of the Form W-2 wages paid to employees of the taxpayer that are properly allocable to domestic production gross receipts.

Entries. Mr. Rosso prints his name, his wife's name, and his identifying number at the top of Form 8903.

Lines 1b) through 4(b). On line 1(b), Mr. Rosso enters \$301,872, his total gross receipts comprised of the following:

- The \$280,082 from line 11 of his Schedule F.
- Plus his cost or other basis, \$6,523 from line 1(d) of his Schedule F.
- Plus \$15,158 ($\$13,160 + 303 + 255 + 670 + 700 + 70$) from Form 4797 (total gross sales price).
- Plus the \$109 received from insurance on the cow struck by lightning reported on Form 4684.

Because he is using the small business simplified overall method, he skips lines 2(b) and 3(b).

All of Mr. Rosso's gross receipts are treated as domestic production gross receipts since he has determined that less than 5% of his gross receipts are non-domestic production gross receipts.

This means that, using the small business simplified overall method, all of his costs of goods sold and deductions can be apportioned to his domestic production gross receipts. Therefore, on line 4(b) he enters \$224,129, his total allocable costs comprised of the following:

- His total expenses of \$216,290, from line 35 of his Schedule F.
- Plus his total cost or other basis of items bought for resale, \$6,523, from line 1(d) of his Schedule F.
- Plus his total cost or other basis of other items sold, \$1,092 ($\$325 + (2,112 - 1,750) + 5 + 400$), from Form 4797.
- Plus his cost basis of the cow struck by lightning, \$224 from Form 4684.

Lines 6(b) through 8(b). He subtracts line 5(b) from line 1(b) and enters the result, \$77,743, on lines 6(b) and 8(b). He skips line 7(b) because he is not a shareholder, partner, or beneficiary of an entity which passed qualified production activity income through to him.



Line 10(b). He enters \$77,743 from line 8(b).

Line 11(b). He figures adjusted gross income without the domestic production activities deduction by completing lines 1 through 37 (skipping line 35) of Form 1040 and enters \$63,698 on line 11(b).

Line 12(b). He enters \$63,698, the smaller of line 10(b) or line 11(b).

Line 13(b). He enters \$5,733 (9% of \$63,698).

Lines 14(b) through 15(b). He skips line 14(b) because he has no gas or oil production activities. Line 15(b) is \$5,733.

Line 16(b). A ratio is figured by dividing the DPGR on line 1 (\$301,872) by the Schedule F gross receipts plus cost of sales from Schedule F (\$280,082 + 6,523). This ratio of 1.0533 is multiplied by the gross farm wages from line 22 of schedule F (\$26,368). Mr. Ross then enters the adjusted wages of \$27,773 on line 16(b).

Line 17(b) He skips because he is not a shareholder, partner, or beneficiary of an entity which passed wages through to him. Therefore, line 18(b) is the same as line 16(b).

Line 19(b). This line is blank as Mr. Rosso is not an estate or trust.

Line 20(b). On line 20(b), he enters \$27,773 the total of lines 18(b) and 19(b).

Line 21(b). he enters \$13,887, one-half of the wages shown on line 21(b).

Lines 22(b) through 25(b). On line 22(b), he enters \$5,733, the smaller of line 15(b) or line 21(b). He skips lines 23(b) and 24(b) because he did not have a cooperative pass the deduction through to him, nor did he have an expanded affiliated group allocation. Thus, line 25(b) is also \$5,733 and represents his domestic production activities deduction to be entered on Form 1040, line 35.