

# Accounting changes within Animal Health Industry

## *Revenue Recognition and Tax Reform*



### Revenue recognition changes

To varying degrees the accounting standard (ASC 606) affects every company. Compliance may require changes in systems, auditing, internal procedures and controls. Don't underestimate the time that adoption is going to take.

Now is the time for animal health companies to address the effects on their businesses of the new revenue recognition guidance in Topic 606, *Revenue from Contracts with Customers*, of the Financial Accounting Standards Board's Accounting Standards Codification. There's an urgency for emerging growth and middle market animal health companies, in particular, to address these effects as many may not currently have the necessary resources in place to support implementation of the new guidance.

### Considerations for animal health companies

Key areas that must be addressed under the new guidance include the following:

- Determining whether collaboration agreements are in the scope of the new guidance
- Identifying the performance obligations (i.e., units of account)
- Measuring and recognizing variable consideration
- Allocating the arrangement consideration or transaction price to the units of account
- Determining whether revenue should be recognized over time or at a point in time
- Accounting for licenses of and rights to use intellectual property
- Accounting for sales involving distributors
- Accounting for contract manufacturing and contract research services
- Satisfying the new disclosure requirements

### What should you do to prepare?

Changes to resources and systems take time to implement, and with deadlines approaching, all animal health companies should have already started taking steps to make the changes. Even if your animal health business is pre-revenue, it is in your company's best interests to be proactive about transitioning legacy systems to newer enterprise resource planning systems. Steps to consider in aligning your people, processes and technology include:

- Define the effects of adoption
- Develop a technology and implementation strategy
- Implement standards changes
- Evaluate internal controls

#### ***In Person Event***

### **Accounting changes within the Animal Health Industry**

#### **Understanding the New Revenue Recognition Standards and Tax reform – Animal Health Industries Opportunities**

**July 12th**

**4:00 - 6:00 p.m.**

*6:00 - 6:30 networking happy ½ hour*

**Sept 10<sup>th</sup>**

**7:30 - 10:00 a.m.**

*7:30-8:00 networking breakfast*

**4801 Main | Suite 400 | KCMO 64086**

**Cost: *Complimentary* to Animal Health  
Corridor Members  
2 hours of CPE credit**

Please RSVP to  
**Kymerli.Cutler@rsmus.com**  
**816.751.1814**

## Tax Cuts and Jobs Act

### How might new tax rules affect your business and tax planning?

The \$1.5 trillion new tax law represents the most sweeping change to tax code in a generation. Tax reform of this magnitude will have broad implications for businesses of all sizes and in all industries. Make sure you understand the impact of the new tax plan and how to maximize your company's tax savings.

The provisions below are notable for the widespread impact on the animal health industry.

- Corporate tax rates are reduced from a top rate of 35 percent to a flat rate of 21 percent
- Alternative minimum tax (AMT) repealed for corporations
- Interest deduction limited to 30 percent of modified taxable income
- Reduction of orphan drug credit from 50 percent to 25 percent
- The gain/loss from the disposition of self-created property is treated as ordinary instead of capital after 2017
- Federal research and development credit preserved permanently
- Carryback of net operating losses (NOLs) repealed after 2017; carryovers will not expire after 2017 but will be limited to 80 percent after 2017
- Mandatory tax of up to 15.5 percent on earnings attributable to cash and 8 percent on remaining earnings
- Deduction for domestic production activities was repealed
- 10 percent tax (5 percent for 2018) on U.S. corporations that make excessive tax-deductible payments to related foreign persons
- Special rate on foreign intangible income
- 100 percent bonus depreciation through 2022, then phased out through 2026
- Changes to officer compensation limitations under section 162(m)

### Are you leaving tax credit money on the table?

Animal Health companies should thoroughly explore all available tax credits and incentives. Each year, billions of dollars in federal, state and local tax credits are available to qualifying companies. States typically offer statutory incentives to lure new businesses into their state, keep existing jobs from moving out-of-state or to encourage businesses to invest more capital in established facilities and create jobs. Business triggers include:

- Job creation or retention
- Capital investment
- Renewal of long-term leases
- Acquiring a new business operation
- Create new business operations
- Construction/purchase/lease of new/expanded facilities
- Infrastructure improvements
- Purchase new machinery/equipment
- Expand, realign or relocate facilities
- Maintain existing facilities
- Restructurings
- Research and development
- Specific business locations
- New and existing employee training

Uncovering these helpful state and federal credits can provide additional financial benefits directly to your bottom line. These state and federal tax credits and incentives opportunities may be available for your business.

- Sales & Use tax exemptions/refunds
- Research and development credits
- Capital investment tax credits
- Work Opportunity Tax Credits
- State employment incentives
- Training tax credits (retroactive/prospective)
- Personal property tax exemptions
- Property tax abatement
- Energy efficiency incentives and credits

To assess your opportunity, consult with a tax advisor that is experienced with helping Animal Health companies benefit from these programs. RSM is an Animal Health Corridor Service Provider. RSM US is the 5<sup>th</sup> largest firm in the US with over 90 offices providing Tax, Assurance and Consulting services to the Animal Health industry.