



MERCHANT MARINE CAPITAL CONSTRUCTION FUND

- Tax Benefits
- Deposit Limits
- Withdrawals – Qualified vs. Nonqualified
- Accounting for CCF Funds
- R&D Credits
- Case Study



Tax Benefits of CCF Contributions

- Amounts deposited into the CCF are deductible from taxable income
- Investment earnings on deposits are generally excluded from income
- Deposits and investment earnings on deposits generate tax deferrals and accumulation of funds for up to 25 years per CCF program agreement
- For C Corporations only, CCF deposits and investment earnings are still subject to Alternative Minimum Tax (AMT), which is a parallel, federal tax structure designed to ensure that taxpayers with substantial income do not avoid tax liability through the excessive use of exclusions, deductions and **CREDITS**. AMT, which is calculated as 20% of AMTI for corporations, may be a factor when determining the amount of the CCF contribution for some businesses.
 - The amount of the AMT would become a Minimum Tax Credit (MTC) Carryover for use in future years. MTC would offset regular tax when the nonqualified distribution occurs.

CCF Contribution Limits



- Contributions may not exceed the following:
 - Taxable income from the operation of the agreement vessels
 - Depreciation on the agreement vessels allowable as a deduction
 - Net proceeds from the sale or disposition of an agreement vessel
 - Receipts from the investment or reinvestment of the fund assets



-

+

x

÷

Withdrawals – Qualified vs. Nonqualified

- Qualified withdrawals do not generate taxable income
 - “Qualified withdrawals” are withdrawals made from the CCF for the acquisition, construction or repair of a qualified vessel
- Nonqualified withdrawals generate taxable income, which are taxed at the highest marginal tax rate plus interest on the tax calculated from the date of the original deposit to the date withdrawn
 - “Nonqualified withdrawals” are withdrawals from the CCF that is not for a qualified purpose. Deemed nonqualified withdrawals are required for deposits that remain 25 years after initially deposited



Accounting for CCF

- An annual audit of the fund is required – though the scope and cost are not nearly as much as full financial statement audit for the business itself.
- The fund must maintain three accounts:
 - **Capital account** – consists of amounts attributed to the depreciation allowable on agreement vessels, proceeds from the sale, disposition, insurance or indemnity of agreement vessels other than gain excluded by reason of insurance or indemnity proceeds being deposited in the fund and tax-exempt interest.
 - **Capital gain account** - consists of gains on capital assets held more than six months for which the taxpayer receives insurance or indemnity proceeds and earnings on those proceeds, reduced by losses on fund capital assets held for more than six months.
 - **Ordinary income account** - consists of income from operating agreement vessels, insurance or indemnity capital gains on assets held six months or less, reduced by capital losses on assets held six months or less, taxable interest and other ordinary income, ordinary income realized on insurance or indemnity proceeds or earnings thereon, and excluded dividends otherwise eligible for the dividends-received deduction that are not included in the capital account.

R&D Credits



- Many businesses, who qualify for inclusion in the CCF Program, may also qualify for a Research and Development Tax Credit (R&D)
- R&D Tax Credits are government sponsored benefits that provides income tax credits for companies conducting R&D in the U.S. Any company that designs, develops, or improves products, processes, techniques, etc. may be eligible.
- The R&D Credit is not a deduction but a credit against taxes owed/paid.
- The amount of the R&D Credit is 20% of qualified expenses.
- Similar to CCF Contribution, R&D Credits do not reduce AMT but unused R&D Credits do carryforward.
- It is important to consider the interaction of R&D Credits and CCF Contributions in a given year in order to assure the most benefit based on Contribution amounts.
- R&D Credit Studies generally cost approximately 35% of the credit calculated.



Case Study - Assumptions

- Business is a “C” Corporation for Case Study I & II. Case Study III is an S Corporation
- Taxable income before Investment Income & Income Tax Expense = \$3,250,000
- For simplicity, all income earned, CCF contributions and taxes occur on January 1st of each year
- Business is located in AL
- Maximum Tax Rate – Federal = 34%, AL = 6.5%
- CCF Contribution per Year = \$2,500,000
- Rate of Return on all Invested dollars = 8%
- Business qualifies for R&D Credit with \$1,000,000 in eligible expenses (Case Study II Only)

Case Study I



Year	Taxable Income	CCF Contribution	Investment without CCF Contribution					Total Investment Balance, net of tax
			Income Tax Expense	Cash Available for Investment	Investment Income	Tax on Investment Income		
1	\$ 5,000,000	\$ -	\$ (1,844,770)	\$ 3,155,230	\$ 252,418	\$ (93,131)	\$ 3,314,518	
2	\$ 5,000,000	\$ -	\$ (1,844,770)	\$ 3,155,230	\$ 517,580	\$ (190,963)	\$ 6,796,364	
3	\$ 5,000,000	\$ -	\$ (1,844,770)	\$ 3,155,230	\$ 796,128	\$ (293,734)	\$ 10,453,987	
4	\$ 5,000,000	\$ -	\$ (1,844,770)	\$ 3,155,230	\$ 1,088,737	\$ (401,694)	\$ 14,296,261	
5	\$ 5,000,000	\$ -	\$ (1,844,770)	\$ 3,155,230	\$ 1,396,119	\$ (515,104)	\$ 18,332,506	
Total Tax						\$ 10,718,476		

Year	Taxable Income	CCF Contribution	Investment with CCF Contribution								Total Investment Balance, net of tax	Minimum Tax Credit C/O
			Income Tax Expense	Non-CCF Cash Available for Investment	Non-CCF Investment Income	Tax on Non-CCF Investment Income	Non-CCF Investment Balance, net of tax	CCF Investment Income	Tax on CCF Investment Income	CCF Investment Balance		
1	\$ 5,000,000	\$ 2,500,000	\$ (1,109,027)	\$ 1,383,080	\$ 110,646	\$ (49,084)	\$ 1,444,642	\$ 200,000	\$ (7,893)	\$ 2,700,000	\$ 4,144,642	\$ 188,385
2	\$ 5,000,000	\$ 2,500,000	\$ (1,109,027)	\$ 1,374,556	\$ 225,536	\$ (100,050)	\$ 2,944,684	\$ 416,000	\$ (16,417)	\$ 5,616,000	\$ 8,560,684	\$ 392,505
3	\$ 5,000,000	\$ 2,500,000	\$ (1,109,027)	\$ 1,365,349	\$ 344,803	\$ (152,958)	\$ 4,501,877	\$ 649,280	\$ (25,624)	\$ 8,765,280	\$ 13,267,157	\$ 612,955
4	\$ 5,000,000	\$ 2,500,000	\$ (1,109,027)	\$ 1,355,406	\$ 468,583	\$ (207,868)	\$ 6,117,998	\$ 901,222	\$ (35,567)	\$ 12,166,502	\$ 18,284,500	\$ 851,040
5	\$ 5,000,000	\$ 2,500,000	\$ (1,109,027)	\$ 1,344,668	\$ 597,013	\$ (264,842)	\$ 7,794,838	\$ 1,173,320	\$ (46,305)	\$ 15,839,823	\$ 23,634,660	\$ 1,108,173
Total Tax						\$ 6,327,830						
Tax Deferral						\$ 4,390,646						

Case Study II



Year	Taxable Income	CCF Contribution	Income Tax Expense	Non-CCF Cash Available for Investment	Investment with CCF Contribution with R&D Credit								Minimum Tax Credit C/O	R&D Credit Carryover
					Non-CCF Investment Income	Tax on Non-CCF Investment Income	Non-CCF Investment Balance, net of tax	CCF Investment Income	Tax on CCF Investment Income	CCF Investment Balance	Total Investment Balance, net of tax			
1	\$ 5,000,000	\$ 2,500,000	\$ (1,127,973)	\$ 1,364,134	\$ 109,131	\$ (49,239)	\$ 1,424,026	\$ 200,000	\$ (7,893)	\$ 2,700,000	\$ 4,124,026	\$ 421,369	\$ 100,000	
2	\$ 5,000,000	\$ 2,500,000	\$ (1,127,973)	\$ 1,355,610	\$ 222,371	\$ (100,331)	\$ 2,901,675	\$ 416,000	\$ (16,417)	\$ 5,616,000	\$ 8,517,675	\$ 842,738	\$ 200,000	
3	\$ 5,000,000	\$ 2,500,000	\$ (1,127,973)	\$ 1,346,403	\$ 339,846	\$ (153,335)	\$ 4,434,590	\$ 649,280	\$ (25,624)	\$ 8,765,280	\$ 13,199,870	\$ 1,264,107	\$ 300,000	
4	\$ 5,000,000	\$ 2,500,000	\$ (1,127,973)	\$ 1,336,460	\$ 461,684	\$ (208,307)	\$ 6,024,427	\$ 901,222	\$ (35,567)	\$ 12,166,502	\$ 18,190,929	\$ 1,685,476	\$ 400,000	
5	\$ 5,000,000	\$ 2,500,000	\$ (1,127,973)	\$ 1,325,722	\$ 588,012	\$ (265,305)	\$ 7,672,856	\$ 1,173,320	\$ (46,305)	\$ 15,839,823	\$ 23,512,679	\$ 2,106,845	\$ 500,000	
Total Tax							\$ 6,424,274							

Year	Taxable Income	CCF Contribution	Income Tax Expense	Non-CCF Cash Available for Investment	Investment with CCF Contribution with R&D Credit - electing the reduced Credit								Minimum Tax Credit C/O	R&D Credit Carryover
					Non-CCF Investment Income	Tax on Non-CCF Investment Income	Non-CCF Investment Balance, net of tax	CCF Investment Income	Tax on CCF Investment Income	CCF Investment Balance	Total Investment Balance, net of tax			
1	\$ 5,000,000	\$ 2,500,000	\$ (1,103,758)	\$ 1,388,349	\$ 111,068	\$ (49,037)	\$ 1,450,380	\$ 200,000	\$ (7,893)	\$ 2,700,000	\$ 4,150,380	\$ 435,000	\$ 65,000	
2	\$ 5,000,000	\$ 2,500,000	\$ (1,103,758)	\$ 1,379,825	\$ 226,416	\$ (99,964)	\$ 2,956,657	\$ 416,000	\$ (16,417)	\$ 5,616,000	\$ 8,572,657	\$ 870,000	\$ 130,000	
3	\$ 5,000,000	\$ 2,500,000	\$ (1,103,758)	\$ 1,370,618	\$ 346,182	\$ (152,840)	\$ 4,520,617	\$ 649,280	\$ (25,624)	\$ 8,765,280	\$ 13,285,897	\$ 1,305,000	\$ 195,000	
4	\$ 5,000,000	\$ 2,500,000	\$ (1,103,758)	\$ 1,360,675	\$ 470,503	\$ (207,729)	\$ 6,144,067	\$ 901,222	\$ (35,567)	\$ 12,166,502	\$ 18,310,569	\$ 1,740,000	\$ 260,000	
5	\$ 5,000,000	\$ 2,500,000	\$ (1,103,758)	\$ 1,349,937	\$ 599,520	\$ (264,690)	\$ 7,828,834	\$ 1,173,320	\$ (46,305)	\$ 15,839,823	\$ 23,668,657	\$ 2,175,000	\$ 325,000	
Total Tax							\$ 6,300,943							
Tax Deferral							\$ 123,332							

Case Study III - Passthrough



Year	Taxable Income	CCF Contribution	Investment with CCF Contribution									
			Income Tax Expense	Non-CCF Cash Available for Investment	Non-CCF Investment Income	Tax on Non-CCF Investment Income	Non-CCF Investment Balance, net of tax	CCF Investment Income	Tax on CCF Investment Income	CCF Investment Balance	Total Investment Balance, net of tax	Minimum Tax Credit C/O
1	\$ 5,000,000	\$ 2,500,000	\$ (922,385)	\$ 1,577,615	\$ 126,209	\$ (46,565)	\$ 1,657,259	\$ 200,000	\$ -	\$ 2,700,000	\$ 4,357,259	\$ -
2	\$ 5,000,000	\$ 2,500,000	\$ (922,385)	\$ 1,577,615	\$ 258,790	\$ (95,482)	\$ 3,398,182	\$ 416,000	\$ -	\$ 5,616,000	\$ 9,014,182	\$ -
3	\$ 5,000,000	\$ 2,500,000	\$ (922,385)	\$ 1,577,615	\$ 398,064	\$ (146,867)	\$ 5,226,994	\$ 649,280	\$ -	\$ 8,765,280	\$ 13,992,274	\$ -
4	\$ 5,000,000	\$ 2,500,000	\$ (922,385)	\$ 1,577,615	\$ 544,369	\$ (200,847)	\$ 7,148,130	\$ 901,222	\$ -	\$ 12,166,502	\$ 19,314,633	\$ -
5	\$ 5,000,000	\$ 2,500,000	\$ (922,385)	\$ 1,577,615	\$ 698,060	\$ (257,552)	\$ 9,166,253	\$ 1,173,320	\$ -	\$ 15,839,823	\$ 25,006,076	\$ -
			Total Tax \$ 5,359,238									

Year	Taxable Income	CCF Contribution	Income Tax Expense	Non-CCF Cash Available for Investment	Investment with CCF Contribution with R&D Credit									
					Non-CCF Investment Income	Tax on Non-CCF Investment Income	Non-CCF Investment Balance, net of tax	CCF Investment Income	Tax on CCF Investment Income	CCF Investment Balance	Total Investment Balance, net of tax	Minimum Tax Credit C/O	R&D Credit Carryover	
1	\$ 5,000,000	\$ 2,500,000	\$ (859,280)	\$ 1,640,720	\$ 131,258	\$ (45,115)	\$ 1,726,863	\$ 200,000	\$ -	\$ 2,700,000	\$ 4,426,863	\$ -	\$ -	
2	\$ 5,000,000	\$ 2,500,000	\$ (859,280)	\$ 1,640,720	\$ 269,407	\$ (92,598)	\$ 3,544,391	\$ 416,000	\$ -	\$ 5,616,000	\$ 9,160,391	\$ -	\$ -	
3	\$ 5,000,000	\$ 2,500,000	\$ (859,280)	\$ 1,640,720	\$ 414,809	\$ (142,575)	\$ 5,457,345	\$ 649,280	\$ -	\$ 8,765,280	\$ 14,222,625	\$ -	\$ -	
4	\$ 5,000,000	\$ 2,500,000	\$ (859,280)	\$ 1,640,720	\$ 567,845	\$ (195,175)	\$ 7,470,735	\$ 901,222	\$ -	\$ 12,166,502	\$ 19,637,238	\$ -	\$ -	
5	\$ 5,000,000	\$ 2,500,000	\$ (859,280)	\$ 1,640,720	\$ 728,916	\$ (250,537)	\$ 9,589,834	\$ 1,173,320	\$ -	\$ 15,839,823	\$ 25,429,657	\$ -	\$ -	
			Total Tax \$ 5,022,400											



Case Study - Summary

Description	Type of Corp	Total Tax	Total Net Investment	MTC C/O	R&D Credit Carryover
Investment without CCF Contribution & No R&D Credit	C	\$ 10,718,476	\$ 18,332,506	\$ -	\$ -
Investment with CCF Contribution & No R&D Credit	C	\$ 6,327,830	\$ 23,634,660	\$ 1,108,173	\$ -
Investment with CCF Contribution & with R&D Credit	C	\$ 6,424,274	\$ 23,512,679	\$ 2,106,845	\$ 500,000
Investment with CCF Contribution & with R&D Credit (reduced)	C	\$ 6,300,943	\$ 23,668,657	\$ 2,175,000	\$ 325,000
Investment with CCF Contribution & No R&D Credit	S	\$ 5,359,238	\$ 25,006,076	\$ -	\$ -
Investment with CCF Contribution & with R&D Credit	S	\$ 5,022,400	\$ 25,429,657	\$ -	\$ -