

R&D tax credit: Big benefits, but little used by industry

Dean Zerbe, alliantgroup National Managing Director | FEBRUARY 22, 2012

The biggest problem of the R&D Tax Credit is not that it is an imperfect jewel in the crowning glory of man that is the tax code – rather the problem for the electrical engineering industry is threefold: 1) electrical engineering firms, and especially electrical contractors, vastly underutilize the credit; 2) the credit should be made more generous; and, 3) it should be modified to allow more small and medium businesses to utilize the credit and be expanded to assist start-ups.

Electrical engineering and the R&D tax credit -- Leaving money on the table

In talking to companies across the country, I am constantly stunned how few are aware of the R&D Tax Credit. In great part, that is because of misinformation that the credit is somehow reserved (or should be) only for laboratories, white coats, and shouts of “Eureka!” as scientists practice their Swedish for their Nobel award ceremony.

The truth is, the view of Congress today is that the credit should be focused not just on basic research, but should have a strong emphasis on applied research – research that you as engineers and your companies are doing on a daily basis – on the shop floor, at your desk, or at the building site. The credit is about your work that is, for example, making that product marginally better, improving or streamlining the production process, lowering the costs of energy usage of a renovated building, or improving the environmental impact of a new building. All of these activities and more are intended to be rewarded and encouraged by the R&D Tax Credit.

A good example of the R&D credit at work for electrical engineers and contractors is the following company alliantgroup recently helped: “Z Company” works in cogeneration and utilities, corporate and interiors, education and non-profit, gaming, hospitality, life sciences, mission critical, and specialty manufacturing. Z Company embraced BIM to help improve value for its clients, combining design and building into an integrated and collaborative process. With this technology, the company developed an innovative construction process to minimize construction waste. Z Company also focuses on sustainable design and building practices, striving to achieve LEED certifications and Green Globe standards. Thanks to all of this, Z Company received over \$220,000 in federal R&D credits for its construction management and design-build work in technology-oriented markets.

This is a real example of the R&D Tax Credit benefit – rewarding and putting extra dollars into the hands of innovative companies applying scientific and engineering principles to the job at hand. It’s about responding to the needs of customers and making a better building, improved product or process. I see first-hand hundreds of companies across the country taking the R&D Tax Credit, and the funds are allowing them to keep their doors open and maintain or expand the good jobs they provide. The credit is supporting companies engaged in applied science, which is a bedrock of long-term economic growth in our country.

The R&D tax credit needs to be more generous

The previous article on the R&D Tax Credit stated that the credit is not sufficient to encourage companies to engage in research that they would otherwise not undertake. The author’s answer was that the credit should be eliminated altogether, but perhaps the better answer is to make it more generous. There is certainly much to be said that the federal credit can and should

be made more robust (although important for companies to bear in mind that many states also offer a generous R&D tax credit as well). By comparison, the federal R&D Tax Credit is in the middle of the pack compared to other OECD countries. (The Organisation for Economic Cooperation and Development includes 34 leading and emerging countries across the globe.) Both President Obama and the Congress on a bipartisan basis have called for the credit to be made more generous to spur innovation and keep jobs in the country.

The R&D tax credit for small and medium businesses

Small and medium businesses are eligible for the R&D Tax Credit, but because they don't enjoy a battalion of tax lawyers like the Fortune 500 corporations, they often don't take the credit or don't take full advantage of it. I was very pleased to play a small part in having Congress remove – at least for 2010 – the AMT barrier for small and medium businesses taking the R&D Tax Credit. Prior to this temporary change in the law (still available on amended returns), business owners subject to the AMT are limited in their ability to utilize the R&D Tax Credit. The removal of the AMT barrier created a sea change for small and medium companies being able to utilize the credit. Thousands of companies were able to take advantage of the R&D Tax Credit for the first-time. The answer to having the R&D credit benefit small and medium companies (and not just the big boys) is to keep the AMT turnoff in place, not eliminate the credit.

One area of agreement that I have with the earlier article is as it relates to the R&D Tax Credit and startups. Again, the answer is not to eliminate it, but instead to look at expanding the credit to provide a limited benefit to start-ups. Several states – New York, Minnesota, Arizona and Louisiana – allow an R&D Tax Credit for startups that has been of great benefit to these companies.

Take advantage of the credit and send less money to the government

The R&D Tax Credit is a key part of electrical engineering companies being able to keep more money in their pockets and send less to Washington. The main problem however, is not an imperfect tax policy, but instead electrical engineers not taking full advantage of the R&D Tax Credit. There is no question that improvements can be made to the credit to make it more generous, expand the use of the credit by small and medium businesses, and make it eligible for startups. Those are good changes worth pursuing and being advocated by readers.

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