



# From the Desk of Dean Zerbe.



## Senator Grassley Calls On Businesses To Claim Available Tax Credits and Incentives Such as R&D

by Dean Zerbe

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It was terrific to see so many people turn out last Friday in Des Moines, Iowa for the alliantgroup Midwest Tax Conference with Senator Chuck Grassley. More than 100 CPAs and executives joined us for a day devoted to finding out the state of the union in terms of tax legislation, the upcoming elections, tax credits and incentives, and how best to weather tough economic times. Conferees got a national perspective provided by Senator Grassley (R-IA), former Chairman and now Ranking Member of the Senate Finance Committee – and widely recognized as a top leader in tax legislation in the Congress. Senator Grassley had several key things to say to accountants and business owners, and I've highlighted them below.

In addition, conferees benefitted from getting a perspective from the trenches on tax policy from Jim Lyons (one of my successors as Tax Counsel for the Senate Finance Committee) as well as myself. Most importantly, conferees got a best-in-class tutorial on tax incentives that can help lower taxes – the research and development tax credit, export tax incentives, various state and local tax saving measures (such as a sales and use tax refund review), captive insurance companies, as well as an in-depth discussion of the new agriculture and energy tax incentives. I probably was most surprised by the overwhelming turnout for the roundtable discussion on issues with IRS audit and exam hosted by Jim Lyons, myself, and Jeremy Fingeret (alliantgroup's Managing Director of Tax Controversy Services). There is clearly a great deal of frustration and unhappiness about the IRS, echoed by Senator Grassley in his speech. All-in-all, the conference gave attendees much to talk about and even more to take home to benefit their business and clients.

### Senator Grassley on Small Business, Tax Incentives, AMT, and the IRS

The Senator spoke candidly for almost an hour about tax legislation, how things work in congress, the role of small and medium sized businesses, and the current state of the IRS and what their role should and shouldn't be.

Here are a few quotations from Senator Grassley's speech that will be of interest to you. On the subjects of the role of small and medium-sized businesses and the importance of the conference itself, Senator Grassley said:

"I've always believed that the tax code should encourage the success of small and medium businesses. That's true now more than ever in these tough economic times. Small and medium businesses are engines of growth in this nation. We need them hitting on all cylinders to get the economy moving forward. That's why this conference is right on the money. Business owners, you should learn about the tax incentives meant for you. These incentives will help you hire more employees or improve or expand your business."

Speaking further about small and medium-sized businesses, he added:

"I'm writing these tax laws to help all businesses. The IRS reported recently that about 85 percent of the R and D Credit went to the largest companies in America. A key reason – the largest companies were much more active than small and medium companies in applying for the credit. Too often small and medium businesses are just simply not taking advantage of the R and D and many other tax incentives."

Senator Grassley urged the audience to take advantage of the credits and incentives built into the tax law:

"A comedian once said that 90 percent of life is just showing up. The same is true in tax: small and medium businesses need to show up and take advantage of these benefits. So my message to you is, learn about the tax incentives that are available to you. These incentives can help your business succeed and thrive, especially in this down economy."

And in speaking about the burdens placed on taxpayers by the IRS, Grassley pointed out that:

". . .the IRS needs to recognize the realities of a small or medium business: far too often the record keeping and other burdens placed on a small business are unreasonable. What may be tolerable for IBM is completely inappropriate for a local business here in Iowa. The IRS needs to understand that at all levels."

Senator Grassley spoke of the problems taxpayers with AMT liability have taking the R&D tax credit. In a good sign of positive developments down the road, Grassley said he would review the current law that limits many businesses from taking tax credits, such as the R&D tax credit, because of the individual AMT.

Given Senator Grassley's comments, I think we have a good chance of getting Congress to change the law as it relates to tax credits and the individual AMT. If you are a CPA with clients that would benefit from such a change, or if you are a business in a similar situation, I would appreciate your contacting me so we can make sure



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Congress hears loud and clear how much this would help business.

Bottom line: I think that Grassley's speech signals the beginning of a turning point for Congress – recognizing the need for small and medium businesses to be able to fully take advantage of the tax incentives in the code and a clear signal to the IRS that they need to stop being in the roadblock business – preventing eligible companies from taking these incentives.

**The Stimulus:** Just a quick note on one part of my speech dealing with a possible stimulus bill. We may see a stimulus bill happen between the elections and Thanksgiving. What it looks like will depend on who wins on November 4th. For business, Senator McCain has proposed cutting capital gains in half to 7.5 percent and increasing loss deductions from \$3,000 to \$15,000 per year. Senator Obama proposes a \$3,000 credit for each new employee hired by a business in 2009/10 as well as a write-off for investments up to \$250,000 through 2009.

**Update:** Since coming back to DC and talking to folks in the know, it seems up in the air about whether we will have a stimulus right away. Bernanke's testimony on Monday is certainly supportive. The real question is whether the Democrats want to look at a stimulus package that requires negotiating with President Bush, or instead would wait (assuming he wins) and work with a President Obama on a package. That is very up in the air right now.

All in all, conferees found the day very informative. alliantgroup is looking at doing similar tax seminars across the country, and I will keep you informed as they occur.

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