

R&D Tax Credit update 2008

2008 R&D changes plus Senator Grassley calls on small and medium businesses to claim the R&D Credit and not fear the IRS

When the bailout bill was recently passed, the extension of the R&D tax credit was tacked on. Now, the R&D credit is extended for two more years, retroactive to January 1, 2008 through December 31, 2009. In addition, the alternative simplified credit (ASC) has been strengthened from a 12 percent credit to a 14 percent credit for 2009.

Senator Charles Grassley (R-Iowa) was behind this legislation. Former Chairman and now ranking member of the Senate Finance Committee, Senator Grassley is widely recognized as a top leader in tax legislation in the U.S. Congress.

Des Moines, Iowa, was the location for the alliantgroup Midwest Tax Conference with Senator Grassley. More than 100 CPAs and executives joined in for a day devoted to finding out the state of the union in terms of tax legislation, the then upcoming elections, tax credits and incentives, and how best to weather tough economic times.

In addition, everyone benefited from getting a perspective from the trenches on tax policy from Jim Lyons, Tax Counsel for the Senate Finance Committee. There was an overwhelming turnout for the roundtable discussion on issues with IRS audit and exam. 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 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.

If there ever was a time to fully understand the phrase "... straight from the horse's mouth ..." this was it.

On the subject 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 biting 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:

see **R&D TAX CREDIT** page 29



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R&D TAX CREDIT

Cont. from page 7

"I'm writing these tax laws to help all businesses. The IRS reported recently that about 85 percent of the R&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&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 have with AMT

liability and lack of utilization of 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.

Bottom line: 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 full text of Senator Grassley's speech can be found on the Web at: www.alliantgroup.com/campaign/Grassley_speech.pdf. ■

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The Illinois Manufacturer

Winter, 2009 issue

The Illinois Manufacturer magazine is the official publication of the Illinois Manufacturers' Association



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