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The 5 Forgotten Venues for the R&D Tax Credit

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For CPAs looking to provide even greater value to their clients, it would be wise to take another look at the Research and Development (R&D) Tax Credit. It's often forgotten—but shouldn't be.

As is common knowledge among CPAs, the federal R&D Tax Credit has been a part of the tax code since 1981, rewarding businesses for making improvements to their products, processes or techniques. The federal credit (and the nearly 40 state versions of the credit that have risen over the years) essentially reward those companies that are thinking bigger and better about their products or services, providing valuable tax credits for their R&D investment. **Currently, the R&D Tax Credit and other related tax breaks save U.S. businesses more than $12 billion a year, as noted in the *Washington Post*.**

That's certainly an impressive figure—and one that would be even larger if all eligible businesses actually applied for the credit. As someone who has spent over two decades at the IRS, I can tell you from personal experience that the R&D credit is one of the most overlooked opportunities afforded to U.S. businesses, with the vast majority of eligible companies (and, in many instances, their CPAs) self-censoring away from the credit.

As it stands, only one out of every 20 eligible businesses takes advantage of the R&D credit, meaning a ton of value is being left on the table by U.S. businesses. With the goal of ensuring CPAs are bringing the best value possible to their clients, I've put together a list of five industries that tend to shortchange themselves when it comes to R&D credits.

1. Manufacturing

"When our CPA first introduced us to the R&D Tax Credit, I honestly thought it was designed for scientists in white lab coats. I never considered that a machine shop such as mine qualified to claim these benefits," said John Feighery, Owner of KAF Manufacturing.

Feighery makes an important point: "research and development" goes far beyond test tubes and petri dishes. It's a lesson all businesses should take to heart, but particularly manufacturers.

In my experience, many manufacturers fail to apply for the credit as they deem their internal testing as unworthy of reward. This is utter nonsense of course, especially considering how a **contract manufacturer received over $1 million in federal and state credits** for two prototypes for production design parts.

While scientific experimentation is nice, you don't need to put a man on the moon to qualify for R&D—applied sciences definitely count and the trial-and-error testing completed on the factory floor is just as valid as that occurring in a lab. Remember, this credit was designed by Congress to keep well-paying jobs in the United States, not to lead to a massive increase in patent applications.

2. Technology and Software Development

As the R&D credit is a dollar-for-dollar, wage-based credit, common sense would dictate that companies with skilled, highly paid employees would be the credit's greatest beneficiaries. With higher wages and employee work hours that can be tied directly to eligibility, R&D is tailor-made to reward the daily innovation of software developers—and the numbers are there to prove it.

For instance, **a software developer received over $5 million in federal credits** for creating applications allowing companies to more effectively administer user accounts. The application provided improved functionality, allowing users to generate requests for multiple systems using one request form.

Technology and software development go hand-in-hand with R&D, and it's high time software developers take advantage of the benefits.

3. Architecture

An industry connected to over 18 percent of the United States' GDP and 20 percent of all American jobs, the architecture industry holds a special place in the American economy, as noted by the alliantgroup. The R&D credit, along with other valuable government-sponsored incentives, has thus far been the government's tool of choice in ensuring its success, with judicial rulings playing a major role in expanding the credit's reach within the industry. Case in point: while **Trinity Industries, Inc. v. U.S.** was a case involving shipbuilders, the ruling's application has been a major win for architects, allowing design firms to claim the R&D credit for their building designs, even if said building designs are done under contract with a client.

With this expansion of R&D comes greater value, with one **architectural firm receiving $244,000 in federal credits** for improvements made to their design and construction processes for a variety of projects, including the design of office, industrial, retail, medical and high-tech structures. In architecture, innovation is the driver of invention and it's that exact line of thinking this credit seeks to incentivize.

4. & 5. Engineering and Contracting—Such as General, Mechanical, Electrical

"We naturally had many questions along the way, especially as to how our activities counted as research and

development. This education turned out to be very valuable to our company," said Bryce Wadsworth, President of Dry Creek Structures.

Dry Creek Structures, like many construction companies, had its reservations about claiming the credit. However, just as with other businesses that improve their processes and services, engineering and contracting firms of all sorts (general, mechanical, electrical, etc.) can claim R&D credits.

Case in point: an **environmental engineering firm received over $524,000 in federal credits** for redesigning a section of failed sewer line causing considerable wastewater overflow to residential areas. An **electrical contracting firm received over $450,000 in federal credits** for developing an electrical system for a newly designed building complex by working around the building's metal construction material.

As you can see, for finding real solutions to everyday challenges, the R&D Tax Credit is a viable and proven means to generate additional value for your clients in a number of industries.

But this can only happen if CPAs like you take a hard look at your clients and demonstrate to them the value of R&D.

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