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Eight Myths That Keep Small Businesses From Claiming The R&D Tax Credit

With tax filing season in full swing and business owners looking at higher tax bills this year, it is all the more important to understand and use the biggest tax credit available for companies – the nearly \$10 billion a year research and development credit. Unfortunately, while big companies wring all the dollars they can out of the credit, only one out of twenty small and medium sized companies eligible for this credit takes advantage of it. Here are some of the myths that hold them back.

One. The Research and Development (R&D) tax credit is only for companies that are inventing something brand new.

Nonsense. The R&D tax credit is not just for inventing something or getting a patent. It is also available (and most typically used by) companies that are improving or modifying an existing product or improving a manufacturing process—that is, making a product cleaner, quicker, greener, cheaper, etc. Also, computer software, architecture, engineering, etc. are all good candidates for the R&D tax credit.

Two. The R&D tax credit is only for companies with laboratories and test tubes.

Wrong. While companies involved in basic research are obviously prime candidates for the R&D tax credit, the credit is very much about encouraging applied science – solving a customer’s problem or a production issue using known scientific principles. Problem solving on the shop floor, in the field, on the site, behind a computer – all may eligible for the R&D tax credit.

Three. The R&D tax credit isn’t for companies in my industry.

Think again. My firm, alliantgroup, has helped thousands of businesses across the country claim the credit, including architectural and civil engineering firms and companies involved in everything from computer software and electronics to food processing and agriculture to chemicals and oil and gas. Self-censoring is the biggest road block to companies taking the R&D tax credit.

Four. The R&D tax credit is only for the big companies.

Sad. That is exactly what too many small and medium businesses think. While the big guys, with their armies of tax lawyers, are all over the R&D tax credit, too often small and medium businesses act as if there were a

velvet rope barring them from taking the R&D tax credit. The R&D tax credit is available for small and medium businesses, but you do need to show up and apply to get it – the IRS isn't simply handing out credits.

Five. The R&D tax credit won't help me with my state taxes.

Au contraire. Thirty-eight states have a state R&D tax credit – and several states are looking this year to expanding their R&D tax credit or creating one. We have worked with companies that have been able to use their state R&D tax credit to eliminate or significantly reduce their state income taxes. In most situations, if your company is eligible for the federal R&D tax credit, it will also be able to benefit from the state R&D tax credit – oh happy day.

Six. The R&D tax credit won't help my bottom line.

Incorrect. Working with businesses small and medium we have been able to find federal and state tax savings from the tens of thousands of dollars to well over a million dollars—plus more tax savings going forward. Much black ink (and green dollars) has been realized for companies thanks to the R&D tax credit.

Seven. It's all too good to be true – it must be snake oil.

Nyet. The R&D tax credit benefits thousands of companies a year. The credit has been part of the Internal Revenue Code since 1981. While the IRS isn't giving away this tax credit—you need to have proper documentation of your activities and correctly apply the law — it is certainly a credit that is widely recognized and utilized by a wide range and number of businesses every year.

Eight. We are going to have tax reform and the R&D tax credit is going to go away.

Bless your heart. The R&D tax credit is a close third to motherhood and apple pie when it comes to support in Washington, D.C. The R&D tax credit is supported on a bipartisan basis in both houses and by the Obama Administration (and not just this administration – all the previous administrations back to when it was put in place in 1981). I predict it will stay in place even with tax reform; in fact, it could well be expanded. Moreover, in many cases your business may be eligible to file an amended return and claim the credit for the previous three years – more money in your pocket to grow your business and create new jobs.

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