

Take Control Of Your Company's Future: The R&D Tax Credit

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The manufacturing industry remains in a constant race to improve their products, as well as the process of making their products — all while dealing with tight budgets and low profit margins. These twin efforts push innovation to the forefront, in particular, applying innovation to the task at hand via research and development (R&D). Happily, the tax code rewards manufacturers who are engaged in these efforts to stay competitive with the R&D tax credit. Unhappily, far too many manufacturing companies, especially the small- and medium-sized, are failing to take advantage of the R&D tax credit.

The benefits of the R&D tax credit can be significant for the bottom line. For example, alliantgroup recently helped a specialty sheet metal company with annual revenue of \$4 million receive over \$70,000 in federal R&D tax credits and \$91,000 in state credits for the testing and implementation of a new metal stamping process. Another manufacturer of precision tools with annual sales of \$12.7 million acquired \$281,000 in combined state and federal R&D credits for their efforts toward the testing and improvement of new modeling procedures.

The R&D tax credit is a lucrative government-endorsed incentive that many manufacturers are failing to utilize, either from lack of information or self-censorship (assuming their activities wouldn't qualify). If your firm is in any way developing new or improved features or functionality through a development process, you should be taking advantage of the major tax benefits offered through this credit.

Isn't R&D reserved for people in white lab coats?

No! You don't have to be creating groundbreaking inventions and processes to be conducting qualified activities as defined by the Internal Revenue Code.

Throughout the years, Congress has reduced documentation and qualification requirements to make this credit more accessible to companies outside of the Fortune 1000. Eligibility has been boosted and much needed clarification of credit qualifications has been provided. Small- to medium-sized firms now have a clear, consistent and affirmative message toward estimation and costs that can be claimed.

Examples of qualifying activities for this credit include developing improved products or unique computer numerical control programs, designing innovative manufacturing equipment and developing or designing tooling and fixture equipment. A key benefit of the federal R&D credit is that a business can claim the benefit for all open tax years — generally the last three years plus the current year — and the credit may be carried forward up to 20 years, often resulting in hundreds of thousands of dollars added to a business' bottom line. In addition, many states now have a state R&D tax credit — increasing the tax savings for manufacturers.

The key is to throw out the old definition of R&D, which many believe is limited to developing products that are new to the industry as a whole. A new host of activities that many businesses might view as operating expenses are potentially eligible for qualification under the R&D credit. The research and design doesn't have to be new to the world, just new to the company.

Self-censoring slows American innovation and job growth

While this incentive is rewarding and attainable, many manufacturers fail to take advantage of it. The Wall Street Journal reported that 19 out of 20 small and medium businesses that are eligible for tax incentives, such as the R&D tax credit, are not claiming the benefits to which, upon examination, they would find that they are fully entitled to.

This is overwhelmingly due to self-censorship. Small and medium-sized business owners frequently think that only Nobel Prize winners and rocket scientists should bother applying. At \$10 billion credits awarded a year, even if you did not think you qualified in the past, it is certainly worth a second look.

“The R&D tax credit is arguably one of the most important incentives our government has created to help support American businesses. Small- and medium-sized businesses account for 70 percent of jobs within the United States, and it's imperative that they take advantage of the support being offered by our government,” said Mark W. Everson, former IRS Commissioner and current alliantgroup Vice Chairman.

In the last 60 years, innovation in new products or new processes has been a central driving force to the nation's economic growth, thus qualifying countless American businesses for these beneficial incentives. This effort needs to continue in order to keep up with a constantly changing market and stay relevant within the manufacturing industry.

Claim this credit now!

Congress and many state governments realize how critical innovation is to the future of America's competitiveness in the world, and the R&D tax credit is an important incentive to nurture that innovation. They also know that the companies engaging in these activities are supporting millions of high-skilled, well-paying jobs.

For these and other reasons, the R&D credit doesn't look as if it will be going anywhere anytime soon. Any manufacturer with relevant products or services would be smart to realize the benefits of this credit and take a strategic approach to allocate that to which they are fully entitled.

While this incentive can be of extreme benefit to manufacturers, it is also complex, and fully identifying the proper substantiation for capturing the credit requires a deep understanding of the tax code. For this reason, companies interested in pursuing this tax credit would be well served by securing the services of a third-party specialty tax firm with practical experience in the disciplines of manufacturing engineering, industrial engineering, mechanical contracting, tool and die, and metallurgy, to work alongside and offer support to their CPAs, ensuring optimal results. By leveraging this expertise companies may be able to realize R&D tax credits that benefit their bottom line while also helping promote its overall strength and viability in the marketplace.



Dean Zerbe is alliantgroup's National Managing Director based in the firm's Washington D.C. office. Prior to joining alliantgroup, Mr. Zerbe was Senior Counsel and Tax Counsel to the U.S. Senate Committee on Finance. He worked closely with then-Chairman and current Ranking Member of the Finance Committee, Senator Charles Grassley (R-IA), on tax legislation. During his tenure on the Finance Committee, Mr. Zerbe was intimately involved with nearly every major piece of tax legislation that was signed into law – including the 2001 and 2003 tax reconciliation bills, the JOBS bill in 2004 (corporate tax reform), and the Pension Protection Act. Mr. Zerbe is a frequent speaker and author on the outlook for short-term and long-term changes in tax policy, as well as ways accounting firms can help their clients lower their tax bill.