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5 Ways Florida Firms Can Take Advantage of R&D Tax Credits

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For small and medium Florida-based businesses looking to stay ahead, a certain overlooked tax incentive can offer a way to grow and reinvest.

The federal R&D Tax Credit and other research and development-related tax incentives have become more generous, now reaching companies from a variety of industries. In addition, many states now offer their own R&D-based incentives, including Florida.

Yet only one out of every 20 eligible businesses actually applies for R&D-related tax incentives, meaning many companies, particularly small and medium firms unfamiliar with the internal odds-and-ends of the tax code, fail to fully reap the rewards of their R&D investment.

Here are 5 tips to help Florida businesses get every hard earned tax dollar coming their way:

Don't self-censor: You can't succeed if you don't try - and that applies to tax incentives. The No. 1 reason eligible companies fail to take advantage of R&D credits is self-censorship, with many businesses believing the credit isn't designed for them. When people hear the words "research and development," they think of white lab coats and test beakers, and while lab research is rewarded, what the federal government and Florida considers R&D is much more expansive. Companies from industries as diverse as software/technology, manufacturing, agriculture, architecture, engineering and contracting (electrical, mechanical, etc.) can qualify for federal and state R&D credits.

Identify all qualifying activities: So if R&D tax incentives are so expansive, what kinds of activities make businesses from so many industries eligible? Simply put, if a company engages in practical problem-solving or experimentation to improve a product or process, there is a good chance they qualify. When it comes to R&D, applied sciences definitely count and the trial-and-error experimentation that occurs on the factory floor or the

modeling and prototyping taking place behind a computer screen are as eligible as any other activity. For a number of retrofit projects spanning over a four-year period, one Florida-based mechanical contractor received \$938,187 in federal and state credits – tax savings essentially accrued through practical contracting solutions. For businesses making even the simplest of improvements to their products or processes, there can be substantial tax benefits, so it's wise to take into account all of your qualifying activities.

Take advantage of every R&D credit coming your way: Remember your state's R&D credit when applying for the federal incentive, particularly considering eligibility for the state credit depends in part on if you have received federal credits. By applying for both, another Florida-based mechanical contractor maximized their results, getting \$571,881 in federal and state credits over three years. However, it is important to note that Florida's R&D incentive sets a \$9 million cap on the amount of credits it distributes in a given year. Assuming a company meets qualifications, the Florida credit works on a first-come, first serve basis; meaning all web-based applications must be submitted the day the Florida Department of Revenue begins accepting applications. If Congress approves the federal R&D Tax Credit once more (a near guarantee considering they have done so 15 times before and the credit continues to enjoy bipartisan support among both the House and Senate), the tentative set date for applications next year would be March 20, 2015.

Keep up with the latest laws and regulations: The Department of Treasury recently announced regulations that will allow businesses to take the Alternative Simplified Credit (ASC) on amended returns, a regulatory change that will allow thousands of small and medium businesses to take further advantage of the federal R&D Tax Credit.

Work with a consultant: With so many constant policy changes occurring to an already complex section of the tax code, it can be difficult for businesses to keep up with every individual change. Qualifying for R&D requires both technical industry knowledge and experts familiar with such a specialized section of the tax code. To maximize your results, seek the services of a consultant with expertise in both areas.

By following these five guidelines, Florida-based companies can see significant tax results and the means for major capitol reinvestment.



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