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alliantgroup Offers Insight on R&D Tax Credits for Mechanical Contractors

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For those MCAA members looking for a practical way to grow their business, the answer may lie in an often overlooked section of the tax code. **The Research and Development (R&D) Tax Credit — an incentive that rewards internal improvements made to a company's products, processes and techniques** — has been around since 1981. Producing tax relief at a rate of nearly $10 billion a year for U.S. businesses, it is one of the most generous and lucrative tax incentives offered by the federal government.

In one example, a mechanical contractor received $245,099 in federal credits for innovative and practical solutions made while working on the dormitories of a college. The company improved its designs and equipment while in the field to ensure that the dormitories' mechanical systems were efficient and operational. Another contractor received $81,696 in federal credits for a number of projects, including fabricating and installing a new HVAC system and asbestos treatment. Yet another received $33,809 in federal credits and $10,477 in state credits for projects including the design and installation of a new generator and the design and installation of a new 1,000-ton chiller.

The R&D Tax Credit was designed to reward practical solutions for the kind of problems a mechanical contractor deals with on a daily basis. However, when it comes to R&D, people tend to think of scientists in white lab coats. You don't need to reinvent penicillin or put a man on the moon to qualify. The problem solving that occurs in the field or onsite — even if it is just a way to improve a building's plumbing or HVAC — is also eligible for R&D Tax Credits.

The R&D Tax Credit has been around for over three decades. It has bipartisan support in Congress and has been supported by every administration since 1981. In addition, 38 states have introduced their own versions of the incentive, and a number of court rulings have further expanded the reach of the federal credit. Among those applicable to mechanical contractors are **Trinity Industries, Inc. v. U.S.,** a ruling allowing businesses to claim the credit for their designs, even if said building designs are under contract with a client the firm is

working for, and **FedEx Corp. v. U.S.,** a ruling providing that businesses only need to prove a substantial and economically significant reduction in cost or improvement in speed — **in short, your work only has to be "new to you," not "new to the world."**

Rizwan Virani is a Managing Director in alliantgroup's Houston national office and is an Industry Specialist in the firm's Architecture & Engineering, Construction, Software & Technology, Semiconductor & Electronics, Power & Energy and Aerospace industry groups, part of alliantgroup's Industry Specialization Program. Rizwan is an experienced electrical engineer with prior experience in the semiconductor industry. He brings several years of experience and expertise in manufacturing technology, semiconductor process, electrical and mechanical hardware development and fundamental engineering principals. Rizwan has worked with many of the world's leading semiconductor companies, such as Intel, Samsung, AMD and Micron. His work involved developing semiconductor hardware and processes based on specifications and requirements defined by the client. Prior to joining alliantgroup, Rizwan was a project engineer and consultant for one of the largest semiconductor capital equipment makers.