

How Big Businesses Slash Taxes With R&D Credit – and How Yours Can, Too

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Boeing saved \$145 million in taxes thanks to the R&D tax credit. Texas Instruments saved \$87 million, and Mattel saved \$4 million.

The recent announcements of first quarter profits by scores of companies has served to underline how big companies take full advantage of the research and development (R&D) tax credit to significantly cut their taxes and improve their bottom lines.

Analysis by the Wall Street Journal underscores that when it comes to cutting taxes, the R&D tax credit is the tent pole for many companies. For example, Caterpillar reduced its tax rate from 30 percent to 21.8 percent, with a tax savings of \$87 million from the R&D tax credit.

While the big companies are cutting their taxes by using the R&D tax credit, too many small and medium businesses are just sitting and watching the parade go by. The No. 1 reason that these business owners don't take advantage of the R&D tax credit is self-censorship. These business owners subscribe to an incorrect and outdated view of what activities are eligible for the credit.

The R&D tax credit is not just for putting a man on the moon and curing cancer; it's for making improved office equipment (Xerox: \$19 million in savings), software (Google: over \$300 million in savings) and radios (Raytheon: \$31 million in savings). And yes, with Mattel and its \$4 million in savings, toys as well. Other businesses that are good possibilities for the R&D tax credit are not only manufacturing and software, but also architecture, engineering and some construction.

If you were surprised to learn that Barbie could get the R&D tax credit, then maybe it's time to rethink whether your company could be eligible as well for the biggest tax credit for business -- approximately \$10 billion dollars a year.

The key to bear in mind is that the R&D tax credit is about rewarding applied science, taking the tools of science and engineering and addressing the task at hand. In addition, the fact that a company is contracted to

provide a product doesn't mean that they are prevented from taking the R&D tax credit. Small and medium companies across the country that have contracts with the prime (think of a parts manufacturer for a car or airplane company) or with the government are eligible in the vast majority of cases.

The R&D tax credit is not only about rewarding companies that seek to create a new product (including when the company's efforts fail) or improving an existing one. It's also rewarding a company if they are making changes in how they make a product. For example, changes to make the manufacturing process cheaper, greener, cleaner and quicker are all possibilities for the R&D tax credit.

The good news is that the R&D tax credit can not only help your bottom line with your federal taxes, it can also help business with their state taxes. More than 40 states now have an R&D tax credit -- with Texas being the most recent -- and the tax savings at the state level can be significant.

The bad news is that they are not giving the R&D tax credit away. You have to ask for it. And the reality is we find that only one out of 20 small and medium companies that are eligible for the R&D tax credit, apply for it. Companies in the Fortune 500 are benefitting from the R&D tax credit. Isn't it time your business did as well?



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