

Tax Credits – Is Your Company Leaving Money on the Table?

Presently, U.S. manufacturers and technology companies in the know are leveraging R&D tax credits to the tune of \$15 billion a year, yet evidence shows that most eligible businesses are leaving substantial tax dollars on the table that otherwise could be reinvested in their businesses. So why are so few companies claiming the R&D credit? The main reason is that most disqualify themselves erroneously because they believe their companies are not conducting qualifying activities and that the R&D tax credit is only for:

- Companies that invent revolutionary new products or processes, or
- Companies that perform research in a laboratory setting, or
- Companies that are successful in their development efforts.

For those unfamiliar with the R&D tax credit, the IRS allows qualifying companies across all industries a substantial tax break for developing or improving products, fabrication processes, and software. Qualified research expenditures include costs associated with investments in innovation and improvements beyond just new product development.

Examples of qualifying research activities include the following:

- Engineering and designing a new product
- Research aimed at discovering new technical knowledge
- Evaluating and designing product alternatives
- Significantly modifying the design of an existing product
- Designing, constructing and testing preproduction prototypes and models
- Engineering activity to advance a product's design to the point of manufacture
- Integration of equipment into a fabrication process
- Experimenting with new materials to improve existing products
- Evaluating new methods for improving performance, reliability, quality and durability
- Developing new production processes during prototyping and preproduction phases
- Research aimed to significantly cut a product's time-to-market
- Research aimed to obtain more efficient designs
- Developing an internal-use software system for collecting production data
- Attempt but fail in the development of a new product or fabrication process

If you think your business might be eligible for the R&D tax credit, you probably are!

In December 2015, the Protecting Americans from Tax Hikes (PATH) Act of 2015 was signed into law, modifying and making permanent the R&D tax credit. Eligible small businesses may now claim the credit against alternative minimum tax (AMT). Additionally, a qualified small business start-up is now able to claim a credit of up to \$250,000 against its FICA payroll tax liability.

Intrepid Advisors is a specialized consulting firm that provides expertise and advisory services to manufacturing and technology companies regarding federal and state R&D tax credits. Business principals interested in the R&D tax credit should contact Al Lenac at alenac@intrepid-advisors.com or visit www.intrepid-advisors.com for additional information.