



Don't Self-Censor: Why You Should Be Taking Advantage of the R&D Tax Credit

Too few manufacturers take advantage of the research and development tax credit. If you're not benefiting, it's time to take a fresh look at this generous tax break.

BY DEAN ZERBE, former Senior Counsel to the Senate Finance Committee and alliantgroup National Managing Director

Businesses in the manufacturing industry are constantly pushing ahead to improve the process of making and producing goods. However, doing this while dealing with budget restraints and sometimes less than exemplary profit margins can be enough to put some companies in a tailspin. Using innovation to move forward requires a good deal of research and development before implementation.

There is a government-sponsored incentive, the Research and Development (R&D) tax credit, which rewards companies for using research and development to maintain their competitive edge. Large companies have been taking advantage of the R&D tax credit for years; however, many small and mid-sized businesses are completely unaware of the qualifying activities that enable them for this credit.

“The federal R&D credit has been around for several decades and has become more generous over the years,” alliantgroup Vice Chairman and former IRS Commissioner, Mark W. Everson explains.

“Businesses that did not qualify in the past may very well be able to claim these credits now because, in 2003, the U.S. Treasury modified the documentation requirements, changing the definition of qualifying activities. R&D is no longer limited to a development or invention that is new to the marketplace or world, just new to your business.”

One of the biggest motivating factors for businesses of any size to seek out the R&D tax credit (aside from the financially beneficial aspect) is that they can claim the benefit for all open tax years – typically the last three years plus the current year. This credit could be carried forward for up to 20 years, often resulting in hundreds of thousands of dollars for the company.

RECENT SUCCESSES

There are several prime examples of companies in the manufacturing industry that have benefitted from the R&D credit. Listed below are companies in four different sectors of manufacturing that took advantage of this lucrative opportunity to claim the credits to which they were fully entitled.

A plastics injection molding company with over \$5 million in annual sales received \$650,000 in federal credits because of the process of researching and developing the design and ultimately, the mold for a particular product.

A software company with an annual sales average of over \$2 million was eligible for \$70,000 in both federal and state tax credits for developing weather prediction software.

A machine shop and repair service averaging \$4 million in annual sales was given \$112,000 in federal credits and \$53,000 in state credits for their business for certain normal day-to-day activities like product testing and stress analysis.

An apparel and textiles firm with an annual revenue of \$202 million qualified for \$450,688 in federal tax credits for the design and development of new and improved apparel products for fit, functionality and quality.

These are but a few examples of the types of results seen by companies in the manufacturing industry. Each company was able to claim these credits because of the varying types of qualifying activities that allowed for their eligibility. As you can see, the activities are not the typical Research and Development that most people think of -- definitely none that require years of research in a laboratory.

WHY IS THE R&D TAX CREDIT SO UNDERUTILIZED?

With results like these one must ask why don't more companies seek out these potentially profitable tax credit? Many companies choose to self-censor, as explained above. These companies may have applied for the R&D tax credit prior to the change in eligibility requirements and simply believe they would not qualify today. This is tragic but happens every year to thousands of small and mid-sized businesses nationwide. Other reasons include, but certainly are not limited to:

Companies believing that the credit is available only for new inventions

Thinking the credit is only for companies with test tubes and lab coat

The credit does not apply to their perspective industry

Only large companies are eligible for the credit

The tax incentive does not provide relief with state taxes

Some companies believe the study and/or possible credit won't improve their bottom line

It seems too good to be true

Many businesses are afraid that a tax reform will occur and the R&D tax credit will vanish

All of these are simply untrue! Virtually all types of businesses can qualify for the R&D tax credit - Congress and many state governments are fully aware of the importance of innovation and the competitive nature of

business. Given the fact that the R&D tax credit is essential for fostering innovation and developing jobs, it is highly doubtful that the R&D credit will be going away anytime soon.

DON'T MISS OUT - TAKE A SECOND LOOK

While this incentive is rewarding and attainable, many manufacturers fail to take advantage of it. This is overwhelmingly due to self-censorship and this slows American innovation and job growth. Small to mid-sized business owners frequently think that only Nobel Prize winners and rocket scientists should apply. The government provides approximately \$10 billion in credits annually at every level local, state and federal levels; it is certainly worth a second look. Further, middle-range businesses account for 70% of jobs within the United States and it is imperative that these businesses take advantage of the R&D credit to continue to expand and thrive.

The R&D credit is by far one of the most generous tax benefits set forth by Congress. Every business in the manufacturing industry has the potential to benefit. There is absolutely nothing to lose by exploring the R&D credit for your company. Numerous manufacturers have been able to grow their business, maintain their competitive edge in the industry, add new jobs and prevent lay-offs because they looked into the R&D tax credit and discovered they qualified for a substantial return.



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