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## **Hidden Source of Cash: R&D Tax Credits**

By Steve Minson, CPA

R&D tax credits aren't just for technology companies. If your company has invested time, money and resources towards the advancement and improvement of its product or processes, you may qualify for the R&D tax credit. You may also qualify if your company makes an effort to make a product lighter, stronger, cheaper, more reliable, more economical and/or more versatile.

The R&D credit is an economic incentive, government-sponsored and backed by the Internal Revenue Service, Congress, and the Administration. Recent changes to the interpretation of the law are taxpayer friendly. The new regulations now make it easier for a broader array of companies to qualify their activities as R&D and it provides greater flexibility with regards to meeting certain record keeping requirements.

The R&D credit is a hidden and immediate source of cash for many companies, as it provides a reduction to current and future years' federal and state liabilities. The credit is not a deduction. It is an actual dollar-for-dollar credit against taxes owed or paid. A business can claim the credit for generally the last three or four years plus the current year. Additional years may be available if the taxpayer is in a net operating loss or alternative minimum tax position. In the event tax credits cannot be used in a particular year, they may be carried forward up to twenty years. Many states now offer a state R&D credit as well as the federal R&D credit.

Aside from the millions of dollars in tax credits, additional benefits include: permanent tax savings and financial statement benefits; increased market value; earning power and cash flow for the company; and a lower overall effective tax rate.

Many taxpayers associate R&D activity solely with high-tech, biotech, and pharmaceutical-type companies. However, R&D expenditures also apply to other areas. If your company conducts any of the following activities, regardless of your industry, your company may qualify for the credit:

- Manufacturing products
- Developing new, improved or more reliable products, processes, techniques or formulas; developing prototypes or models
- Developing and applying for patents; designing tools
- Developing new technologies
- Conducting tests of new concepts
- Attempting the use of new materials
- Designing or modifying new equipment
- Improving the manufacturing process
- Improving or building new manufacturing facilities and processes
- Sustainable design, CADD modeling and design testing, and environmental design

It may even apply if you expend resources on outside consultants and/or contractors to do any of the previously mentioned activities.

R&D tax credits are strong tax incentives to qualifying companies. Many companies have not taken advantage of them and are not getting the benefit they deserve. As the pace of business accelerates and competition increases, you may be more likely to overlook this source of cash because you lack the time, resources or necessary expertise to identify and manage R&D claims. Why not let DGC help you start realizing the tax savings you've earned?



Steve Minson is a partner at DGC with over 25 years of experience. He works closely with business owners to find efficient tax solutions to the issues facing their companies.