

Benefiting From the R&D Tax Credit

by John Shegda

Take on a new project?
Had to quote it up front?
Don't always make \$\$?
Learn how the R&D Tax Credit can help you.....

A couple of years ago, I was in a cab heading to a legislative conference for a National Tooling and Machining Association (NTMA) event in Washington DC when my understanding of the R&D Tax Credit was turned totally on its ear. A guy that I shared the cab with (who turned out to be a specialist in the program) asked what my business was. I told him that I owned a small (30-ish employee) high-precision grinding job-shop. He then asked if we took advantage of the R&D TC program. My natural answer was “no, that does not really apply to our business – we don’t do much R&D”. ***My idea of what the program was could not have been much more off-base.***

During the next 15 minutes I was educated to the fact that shops just like ours take advantage of the R&D credit all the time. That “R&D” did not only mean investments to develop a new product, but also applied to a company like ours - considered problem solvers. We take on many new projects, and often will establish processes, test feasibility, and sometimes push some limits and break new ground. Many of our senior people are not “production oriented” workers – they are shop floor, school of hard knocks, process engineers. They look at a print, look at the parts that the customer provides, and figure out way to get it done.....this, I found out, under the rule of the R&D Tax Credit, ***is considered to be R&D!!!***

It turned out that more than half of our guys spent a majority of their time on R&D, and with a quick calculation it was estimated that, based on their pay, the credit for our company would fall in the \$30K range! Wow! But, of course what the Federal government gives, they often take away – the Applied Minimum Tax (AMT) – which applied to many Sub-S corporations - negated the entire R&D tax benefit for us! Pretty fitting for our government – create something that actually might help us, and then legislate it away....until this year.

The AMT was eliminated for tax year 2016, and after doing some fact checking it appears that we will be eligible for the full benefit of the R&D program this tax year.....we will keep you posted on our progress as we get into documenting, preparing and applying for the credit!

Scott Schmidt of the Blackline Group will be giving detailed information on the R&D Tax Credit at the Manufacturing Advocacy Series being held on September 28, at the Valley Forge Casino. He will be available for questions at that time.