

Benefiting From the R&D Tax Credit Pt. 2

by John Shegda

So, in the last part of this R&D Tax Credit blog, I relayed a story of how I had learned that this credit could be well applied to a small “problem solving” company like ours. On the surface it seemed that we could be in line for a tax credit of more than \$30K (this was an estimate for the 2013 tax year for our company), and that in 2016, with the phase out of the AMT, we would be able to take full advantage of this federal tax benefit.

The next phase of the process was to have a specialist in the R&D credit come out to our facility, give a look around and understand our processes. In a VERY coincidental revelation - It turned out that this guy (his name is Al) had run a centerless grinder during the summer while he was in college – it was meant to be!! Anyway, after Al got an understanding of our company, he explained how the whole thing works. There are certain criteria that must be met to qualify for R&D (ask your accountant or R&D specialist about this) – we met them with no problem. Al explained that the greatest part of the benefit for us would come from compensation based on our payroll cost. Our credit would mainly be based on some calculation of the percentage of an employees time that they spend on R&D work, and what we pay them.

It should be noted that this does not just apply to our shop-floor guys! Our estimator is almost 100% R&D. This credit can be applied all over the company. After going through our entire company employee list with Al, and estimating what percent of their time during a week is R&D (I tried to be conservative with this – figured I did not need the IRS breathing down our necks), and then matching that up with what these folks are being paid, Al was able to come up with a basic idea of what our credit would be. Are you ready for this???? \$62,000!! Holy Cow! Now, there will be some significant fees for the R&D specialist company, but they should be in the range of about \$15K. Even with this we are looking at a huge benefit to the company.

This could be game changing for us. Finally, something that can truly help some of us little guys out there! This is where we stand right now – at the beginning of January 2017. I will write a 3rd part of this blog when the whole process is finished and we can really see what we have. But, I have to say that it looks pretty promising at this point!