

Benefiting From the R&D Tax Credit Pt. 3

by John Shegda

To review to this point – the R&D Tax Credit, which was previously unavailable for many companies of our size to take advantage of, became more ubiquitously useable in manufacturing for Tax Year 2016 because of changes made to the Alternative Minimum Tax (AMT) in the current year. Though we had been assessed before, and felt that we could accrue significant benefit from the credit, our company had never been able to use it to our benefit.

Over the course of the last several months we interviewed, and engaged with an advisory service that specializes in the R&D Tax Credit. They came out to our facility, explained how the credit works, collected data, acquired an understanding of our process, interviewed employees and ultimately developed a report outlining an estimate of what our credit would be. They estimated that we should see a \$62,000 federal credit.

Through the final steps of the process, we had to supply employee pay information, and estimates of the percentage of time that each participated in what could be considered “R&D activities”. As I mentioned in the last blog article, I was conservative on this estimate – I wanted to be certain that we could defend our claims in the event that the IRS came knocking at our door sometime in the future! In addition to the employee information, we had to supply case studies and show documentation of indicative R&D projects. It was actually fun to tell the stories of the projects to the staff engineer from the firm. He seemed excited and intrigued by the work that we do.

It is important that you are able to document time and resources spent on your example projects. If this is something that you feel that you don't do well, it would be proactive to begin to think about it before applying for the credit. We use a standard MRP system for job shops (E2 Shoptech) – it served our purposes well for the sake of this study.

Once the specialist had all the information they needed, they constructed a full report of our R&D activities - this is what we would use to document and defend our claims. They did this 100% - but did ask that I read it over for accuracy before it was finalized. The final dollar value for the credit was \$65,000 – unbelievable. This number through our government's convoluted system, is boiled down to a useable credit of \$42,000. The total cost of the study – including the fees from our accounting firm to administrate was \$8000. This was about half of what I had originally anticipated!

All in all, the process was easy. Most of the work was done for us. Sure there was some digging for records, and one solid day of me holed-up in my office working out numbers – but a

\$34,000 net tax gain for about 16 hours of my time – I call that an exchange that I wish I could make every week!

At this point I could not be happier that I shared that cab in Washington DC with that stranger (an R&D Tax Credit professional) some years ago! I am heading to DC again for the same conference in about a month – if I see him there I think that maybe I will pick up the fare instead of splitting it with him this time...!