

Opportunities Regarding the R&D Tax Credit

Tax
Advisory
Group

The PATH Act can benefit qualifying tax payers

By David S. DOWNIE, CPA
Principal, HBK CPAs & Consultants

The 2015 PATH Act made the R&D tax credit permanent and expanded benefits to many taxpayers. Historically, many qualifying taxpayers have failed to take advantage of the credit. This is, in part, due to misunderstanding whether their activities qualify for credit. In addition, many taxpayers are simply unaware that the credit exists. The R&D tax credit has been in the Internal Revenue Code since 1981. It has survived all major overhauls of the Code since its adoption.

Qualified small businesses are now able to use the R&D tax credit to offset the Alternative Minimum Tax (AMT).

Considering the expanded benefits and the potential of the credit to offset taxes (while also maintaining a deduction for these costs), taxpayers should consider how it can be applied to their businesses.

Expanded benefits due to the PATH Act are twofold. Businesses and certain startups with less than \$5 million in annual revenue can now use the credit against their payroll taxes, assuming they have had employees engaged in R&D for five years or less. Under the new law, the maximum benefit an eligible company is allowed to claim against payroll taxes each year is \$250,000. The payroll tax offset is available to companies that meet the following qualifications:

- Generated gross receipts for five years or less
- Less than \$5 million in gross receipts in 2016, and for each subsequent year for which the credit is elected
- Conducted qualifying research activities

In addition, qualified small businesses with less than \$50 million in gross receipts are now able to use the R&D tax credit to offset the Alternative Minimum Tax (AMT). Prior to 2016, the AMT often limited the benefits of the R&D tax credit.

Many businesses fail to take advantage of the R&D credit. If your business performs any of the activities listed below, you are likely performing qualifying R&D activities:

- Improving product quality
- Developing second generation or improved products
- Developing products through use of computer-aided design tools
- Designing and/or developing tooling and equipment fixtures
- Optimizing manufacturing processes

- Designing manufacturing equipment
- Prototyping and modeling three-dimensional products
- Designing, evaluating and/or developing cost-effective operational processes or alternatives
- Performing alternative material testing
- Integrating new materials for improved product performance and manufacturing processes
- Evaluating and determining the most efficient flow of material
- Designing, creating and testing product prototypes
- Increasing manufacturing capabilities and production capacities
- Achieving compliance with changing emission regulations

Considering the expanded benefits, the underutilization, and the permanent nature of the credit, now is the perfect time to consider this opportunity. Please contact David Downie with questions on the R&D Credit and its many potential applications.



David S. Downie, CPA

Principal, HBK CPAs & Consultants

Dave is a Principal in the Youngstown, Ohio office of HBK CPAs & Consultants and has been with the firm since 1994.

Dave is a member of the HBK Tax Advisory Group and has extensive experience with tax issues in the car dealership, healthcare, construction and manufacturing industries. Dave provides research and expert counsel on complex tax issues for HBK clients. He is a member of HBK's Construction Industry Group.