

RELIEF COMES IN THE FORM OF R&D TAX CREDITS FOR MANUFACTURING COMPANIES

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As history has shown us, difficult times can spark a renaissance of innovation and creativity. With the continued impact of the Coronavirus on American businesses, many companies are rolling up their sleeves, pivoting their focus, and offering radical solutions to solve our pandemic problems.

Retooling production lines is just one way manufacturers have shifted their focus to help those in need, keep employees on the payroll, and remain productive and profitable during this crisis.

Here are a few examples:

- A Seattle-based company, Tom Bihn, transformed their factory to develop cloth face masks.
- A 3D-printing lamp company, Gantri, repurposed its facility to produce 3D-printed visor frames for health care workers.
- EverlyWell has developed an at-home COVID-19 test kit.

It is not just large manufacturers and Silicon Valley giants who are spearheading this transition, many small to mid-size businesses are performing miracles as well. These companies include pharmaceutical, clothing, technology, cosmetics, textile, and others.

Whether a company is contributing to relief efforts or trying to maintain business or retain its employees, Research & Development (R&D) Tax Credits can offer much-needed cashflow. ***R&D tax credits provide a dollar-for-dollar reduction in federal and state tax liability, and unused credits can be carried back to the prior year, then forward for up to 20 years.*** Companies can get a tax refund for the credits claimed on amended returns, and all open tax years are available to amend (three years for federal and up to four years for some states).



"RESEARCH & DEVELOPMENT (R&D) TAX CREDITS CAN OFFER MUCH-NEEDED CASHFLOW."



Companies that invest in capital projects, such as expanding production facilities or making significant changes to a production line to produce a new item, can capture the qualified time and expense associated with that project towards the credit. Process improvements intending to improve efficiency, reduce energy consumption, increase capacity, improve quality, reduce waste, or automate manual tasks through software development or robotics may also qualify.

The additional cash flow generated from these credits can be significant. Companies can pay off debt, secure much-needed financing, make payroll, hire engineers, purchase equipment, and launch a new product. Most states offer an R&D credit incentive for qualified research taking place within the state for an added benefit.

To qualify for the credit, companies must be performing qualified research, which includes all the following:

1. Conducting activities that are technological in nature, relying fundamentally on a hard science (e.g., physics, biology, engineering, or computer science);
2. The activities must intend to result in a new or improved product or process;
3. The research must contain technical uncertainty as to the capability, appropriate design, or appropriate method; AND
4. The research must follow a process of experimentation, whereby alternative materials, designs, processes, methods, or techniques are evaluated to arrive at an optimal solution.

To the extent a company's activities meet this "Four-Part Test," the following expenses can be claimed toward the credit:

1. Employee wages dedicated to qualified research activities;
2. Prototype supplies used in the design; and
3. Third-party contractor expenses paid for qualified research.

The credit is equal to roughly 10% of these qualified expenses. The federal credit is now permanent, so companies can be confident in claiming these credits for many years to come.

If your company made significant process improvements during the past few years, whether in response to COVID-19 or simply to gain a competitive advantage, the R&D tax credits can be a source of cash during these uncertain times. ■

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¹ <https://www.wired.com/story/covid-19-charities-nonprofits-companies-helping/>