

## [Unclaimed R&d Tax Credits - Machine & Weld Shops & Manufacturers](#)

This substantial manufacturer's cash-back incentive known as the R&D Tax Credit is being ignored by Companies nationally for several reasons. The primary reason for its neglect is simply that these Companies do not understand that their day-to-day activities (including product design, development or improvement) qualify for the Credits.

----- R&D Activities Misunderstood -----

Research and Development is generally understood by its literal meaning; research facilities occupied by scientists experimenting with various chemicals. By this definition, a machine shop, for example, would not have any qualified activities. However, that is not the definition as adopted by the IRS. The IRS defines Research and Development simply as the design or development of a new or improved product or process.

This clearly includes machine shops, weld shops and manufacturing firms as one of many industries partaking in R&D on a daily basis, whether they know it or not!

What sort of R&D activities do machine shops engage in on a daily basis?

Daily activities include conceptualization and the design of new or improved products using activities such as CAD modeling. In addition, activities related to CNC machining are a regular activity considered by the IRS as R&D.

Other qualified activities include:

- \* Laser Technology
- \* Grinding
- \* Electro Mechanics
- \* Vibratory De-burring
- \* Hardware Insertion
- \* And much more.

Companies typically perform these listed activities on a daily basis.

----- How Much Money is Being Left on the Table? -----

So exactly how much are these Companies really missing out on?

The R&D tax credit is one of the largest credits available. It is a 20% cash-back, wage-based credit. The IRS also allows Companies to go back 3 open tax years and claim the credits for these previous years.

----- Machine Shop Example -----

The best way to paint the picture is by detailing an actual case study. A Texas Machine shop performs the following qualified activities:

- \* CNC precision machining
- \* Grinding
- \* CAD modeling
- \* Electro-Mechanics

Their total payroll for tax years 2003 thru 2006 was \$4 mm or approximately \$1 mm per year. This company had a net R&D benefit of \$100,000.

All of this sounds great but begs the question:

----- Where's My CPA on This? -----

If this credit is so beneficial to Manufacturing firms, Weld Shops and Machine Shops, why haven't their CPA's told them about it?

Most qualifying company owners, after learning about the manufacturers' credit, tend to wonder why their CPA failed to calculate this on their behalf. However, it is by no means the CPA's fault. Most CPA's recognize that to accurately calculate and substantiate the Credit calculations, a highly detailed engineering report explaining a Company's qualifying activities must also be prepared.

This report is often too technical for a CPA as they would be unfamiliar with a clients particular technology. To truly take advantage of and maximize the credit, it takes a specialized tax engineer to fully understand each Company's products and processes. Nevertheless, several additional questions would come to a machine shop, weld shop or manufacturing firm owner's mind. One of the most frequent is as follows:

----- Aren't Time Sheets Necessary? -----

Don't companies need accurate time sheets since it is a wage-based credit?

NO, qualifying Companies do not need accurate time sheets for each employee. The Government recognized in 2001, that a majority of innovation in the U.S. was coming from small to mid-size firms. They also understood that these smaller to mid-sized firms simply could not afford the IT infrastructure required to keep track of this time. It is thus the job of the specialist company preparing the Study to account for the time spent on qualifying activities.

----- Conclusion -----

In conclusion, it is evident that many Companies around the nation are overlooking the R&D tax credit. Everyday though, more and more Companies realize the opportunity and take the necessary steps to receive their credits.

With the difficulty of understanding and properly substantiating the credit, many Companies have hired R&D Tax Credit specialists to assist them in capturing these credits.

It usually takes 4-6 hours of cumulative company employee time (primarily a head engineer or shop foreman) and 3-4 weeks of the specialist's time to produce a detailed report accounting for the products and processes that the company develops.

In addition, the report also includes the calculations required to capture the benefit. Once the appropriate forms are sent, it usually takes 3-4 months for the Companies to receive their checks from the IRS.

----- Additional Case Studies: -----

Example #1: Machine Shop

Sampling of activities:

\* Prototyping

\* CAD/CAM

\* Precision CNC Machining

\* Solvent and Adhesive bonding

\* Quality Assurance

\* Thermoforming Processes

Annual Payroll: 2003 - \$1MM 2004 - \$1.5MM 2005 - \$2.5MM 2006 - \$2MM

Net Credit Benefit for 2003 thru 2006 tax years: \$110,000

Example #2: Welding Shop

Sampling of activities:

\* Laser Technology

\* Shielded metal arc welding

\* Resistance welding

\* Quality Assurance

Annual Payroll 2003 - \$6MM 2004 - \$7MM 2005 - \$8MM 2006 - \$9MM

Net Credit Benefit for 2003 thru 2006 tax years: \$500,000

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