



ARE YOU GETTING THE BENEFIT FROM THE R&D TAX CREDIT?



William McNamara, CPA
Director of Construction Services Group
Cowan, Guteski & Co., P.A.

The Research and Development Tax Credit is a government-sponsored benefit that provides incentives for companies conducting R&D in the US. In December 2003, the IRS finalized regulations for the Research and Development Tax Credit that make it much easier to qualify for this benefit. These final regulations opened the door for eligible taxpayers to “look back” for potential refund claims for credits that were missed or understated. The new regulations coincide with the intent of Congress and are much more taxpayer friendly. They reflect a profound change in the position of the IRS. The new regulations: 1) make it easier for a broader array of companies to qualify their activities as R&D; and 2) provide greater flexibility in certain recordkeeping requirements.

So who qualifies? Among others, companies in the construction and architectural industries are potential candidates for the credit. The historical perspective has long been that R&D credits were limited to companies with scientists working in white lab coats. Prior to the relaxed regulations, there was some truth to this perspective.

With the relaxed regulations, the definition of R&D is much broader. For instance, companies that attempt to develop a new product or improve a product (i.e. improve quality, application, functionality, etc.) may qualify for the credit. Also, companies that develop or improve processes (i.e. develop a methodology to improve the quality or speed of construction) may also qualify.

A sampling of specific activities which may qualify for the credit, as pertaining to the construction industry, include:

- Developing a process that increases the quality of construction (i.e. durability and longevity);
- Developing a process that speeds the construction process via technology (i.e. software, utilizing pre-cast systems);
- Developing unique structures (i.e. post 9/11 structures that can withstand ballistic levels or catastrophic events);
- Testing of new concepts and technology;
- Development of new technology;
- Attempted use of new materials;
- Automate internal processes;
- Development of mission critical systems;

- Development of new structural elements;
- Advancing the concepts of form, space, organization, circulation, proportion and scale in modern architecture; and
- Developing advanced components of a structure (i.e. development of advanced expansion joints).

We have found that many clients tend to regard their own efforts to make new, lighter, stronger, cheaper, more reliable products, or to make more precise, more economical and more versatile processes as "just doing my job," when in fact they have been performing R&D qualifying activities all along.

The R&D credit is largely based on an allocation of labor costs that are attributable to these qualifying activities. Often times, especially in privately owned companies, one's title is not indicative of whether time is spent on R&D activities, as such individuals wear many hats. Identifying and documenting the R&D credit can be complex, but the results can be well worth the analysis.

The credit offsets tax, dollar for dollar, which is much more powerful than a standard deduction. Practically speaking, there is a three-step process to explore this opportunity. First, an evaluation of whether you qualify and a broad determination of credit potential. Second, a tax analysis of the ability to utilize the credits (i.e. past, present, future). And third, quantifying and documenting the credits and filing the amended returns, if necessary.

As one of the leading accounting and consulting firms for the construction industry, Cowan, Guteski & Co., P.A. works closely with our construction clients to help them take full advantage of increased tax incentives, along with other industry specific benefits to which they may be entitled. By working with our partner The alliantgroup, who is an independent national firm focused on delivering Government sponsored incentives to small and mid-size companies, we are able to determine if you are eligible for an R&D Tax Credit. Contact Bill McNamara, CPA - Director of the Construction Services Group at 732-349-6880 extension 116 or bmcnamara@cowanguteski.com for more information on R&D Tax Credits or other strategies that can help you keep more of the money you make.



40 Bey Lea Road, Suite A101, New Jersey
Phone: 732-349-6880 • Fax: 732-349-1949
www.cowanguteski.com