

## Missed Research and Development Credit Opportunities

There are many activities and expenses that are eligible for the Research and Development Tax Credit (R&D) that go unreported and therefore the company loses out on potential tax savings. A few of these activities and expenses will be discussed and explained briefly to make sure you are making the most of your R&D filing.

### **Eligible Employees**

There are many employees that are not typically thought of as being research, development, or design specific employees. The regulations allow for support and supervisory employees as to be utilized in the credit calculation. A good example of this is the time the sales employees are working with customers to determine what new features or requirements are needed for products. These individuals are on the front end of the development process by helping determine the initial specs for a product and act as a liaison with customers if field testing is done.

### **Eligible Time**

Time spent in design meetings is often overlooked. During these meetings supervisors are listening and giving feedback as to what the next steps need to be or giving advice on how to overcome a design obstacle based on their experience. Other stakeholders are providing feedback, taking notes, and giving suggestions. Each of these activities goes towards the result of whether a project will be successful or not.

### **Eligible Expenses**

Tooling and testing equipment can also be expensed. Often tooling must be designed in order to be able to make the new product. Other times new testing equipment may need to be developed in order to properly test a new product to make sure it is performing as intended. These expenses can be added into the R&D calculation. The use of third-party contractors often comes into play with these types of expenses.

Many times, a proof of concept or a first of kind product is made to show that a design is viable, or in order to get a contract. Other times the product being developed is too costly or too intricate to make a simple prototype, so the first piece made is treated as a prototype for testing purposes. A first-time production run can also be part of the testing process. Assurances need to be made that scaling a design up and the manufacturing process that has been designed is going to provide the same end resulting product that has been seen on the smaller scale. All these types of costs can be considered in the R&D calculation.

### **Process Improvements**

New or improved manufacturing processes can also be claimed under R&D. In order to accomplish these tasks, you might have to reconfigure the shop floor, which takes design time to fit anything new into the finite space you must work with. New products often also require the use of new technologies that have not been used by a company before. Time must be used to determine what the best way to manufacture a new product is, or if a new technology can improve how a current product is being produced. This research time is part of the new or improved process development.

## **State Credits**

Prior planning for state credits is important. There are many states that require prior approval in order to file for R&D in that state, while other states require additional information that is not typically captured during the calculation of the federal R&D calculation process. Knowing this prior to the onset of the credit calculation is important to maximize the credit's return for your company.

This is just a short list of examples of items that your company may be missing out on when applying for and calculating the research and development tax credit.