

R&D Tax Credit Overview

*R&D Tax Credits to Support and Stimulate
Southern Tier Businesses*



R&D Tax Savers



- First R&D Tax Credit study in 1981
- Over \$600 million in Federal R&D Tax Credits saved
- Multidisciplinary firm of engineers and traditional tax experts
- A Division of Energy Tax Savers, Inc. (179D)
- Tax Writers for CCH & Thomson Reuters

The R&D Tax Credit



- Tax credit for new/improved product, process and software
- \$1 for \$1 reduction on taxes owed or taxes paid
- Three years of past credits still eligible in addition to the current tax year
- Carry credits back one year and forward twenty

Major Recent Updates

Tax Credit Permanency:

- Can now be included in annual tax planning

Offset Alternative Minimum Tax (AMT):

- Can now offset corporate and individual alternative minimum tax

Startup Payroll Credit:

- Gives start-ups a \$250,000 per year credit towards payroll taxes

Start-Up Payroll Credit

- Qualifying startups can use the credit against up to \$250,000 per year in payroll taxes.
- Can utilize the program for five consecutive years, \$1,250,000 in potential R&D credits.
- Eligible companies must meet the following criteria:
 - Corporations (excluding publicly traded), partnerships, or individuals
 - Less than \$5M in Gross Receipts for the taxable year and
 - No Gross Receipts in all years prior to five years ago (2016)

R&D Credit Usage by Industry

Industry	# Corporations Claiming Credit
Manufacturing	6,568
Scientific & Technical Services	5,694
Information	1,842
Wholesale/Retail	1,410
Holding Companies	744
Various Services	343
Finance/Insurance	338
Construction	334
Waste Management	144
Agriculture & Wildlife	111
Transportation/Warehousing	85
Mining	78
Utilities	69
Real Estate	59
TOTAL:	17,824

IRS – SOI Tax Stats - 2014

Major Opportunity Areas for NY Southern Tier



- Manufacturers
- Machine Shops
- Life Science & Biotechnology
- Food & Beverage
- Design/Engineering
- 3D Printing Users
- Software Development

R&D Credit - 4 Part Test

- 1) New or Improved Business Component
 - Product
 - Process
 - Software (Internal or External)
 - Technique
 - Formula, or
 - Invention
- 2) Technological in Nature
- 3) Elimination of Uncertainty
- 4) Process of Experimentation

Eligible Expenses

- Employee Wages
 - Many firms nonetheless have scientists, engineers or designers on staff
 - **“Technical Problem Solving”**
 - Sole proprietor and active partner income
 - Guaranteed payments to active partners
 - 80% of employee time R&D → 100% of wages eligible
- Supplies - Consumed in the R&D Process
 - Tangible property other than:
 - Land or improvements
 - Property subject to the allowance of depreciation
 - Examples: raw materials, chemicals, reagents
- Contractor/Consultant Payments - 65% of contract R&D expenses eligible

Leveraging R&D Credit During COVID



- Many companies have had to 'pivot' their business to face COVID-19 challenges.
- Technology/software integration, physical process changes, entering new market segments, etc.
- Make note of these process changes as they can likely qualify for 2020 R&D credits
- Utilizing prior and current year R&D credits so minimize taxes and obtain refunds

Timing of Tax Return Filing

- Including the credit on your 2020 tax return:
 - Now is an excellent time for companies to begin looking at the R&D Credit for timely filing on March 15th or April 15th.
- Looking back at 2019 and prior years:
 - The R&D Credit can be included on an amended return and a refund would be issued for any taxes paid

Manufacturing Industry



- The manufacturing sector is the largest user of the R&D Tax Credit.
- New York's Southern Tier has over 800 manufacturers, virtually all are eligible to obtain R&D Credits
- Key eligible activities:
 - New and/or improved products
 - New and/or improved processes
 - New and/or improved software
 - Includes testing and process development related to new/improved products
 - Packaging and distribution improvements

R&D Tax Credit Case Studies

Manufacturing



	Tax Year	Total Qualified Expenses	Total R&D Credit
Commercial & Residential Lighting Manufacturer			
	2018	\$ 18,992,841	\$ 1,024,669
	2017	\$ 19,669,612	\$ 918,409
	2016	\$ 17,866,957	\$ 822,869
	2015	\$ 17,640,403	\$ 788,446
	2014	\$ 17,362,548	\$ 775,852
Metal Fabrication Company			
	2018	\$ 3,221,947	\$ 181,717
	2017	\$ 3,508,669	\$ 136,838
	2016	\$ 3,024,592	\$ 117,959
	2015	\$ 2,940,353	\$ 114,674
Truck Lighting Manufacturing			
	2019	\$ 1,968,070	\$ 111,150
	2018	\$ 2,281,943	\$ 149,652
	2017	\$ 1,862,117	\$ 94,994
	2016	\$ 1,634,523	\$ 76,637
	2015	\$ 1,696,891	\$ 88,596
UV Equipment Manufacturer			
	2018	\$ 1,516,254	\$ 151,625
	2017	\$ 1,572,953	\$ 102,242
	2016	\$ 1,498,739	\$ 97,418
	2015	\$ 1,291,225	\$ 89,930
Military Equipment Manufacturer			
	2018	\$ 1,111,120	\$ 63,910
	2017	\$ 1,273,530	\$ 49,670
	2016	\$ 1,020,690	\$ 39,800
	2015	\$ 905,350	\$ 35,310

R&D Tax Credit Case Studies

Precision Machining



Tax Year	Total Qualified Expenses	Total R&D Credit
Medical Device Machined Components		
Year 3	\$ 659,198	\$ 25,660
Year 2	\$ 684,930	\$ 25,311
Year 1	\$ 694,097	\$ 20,990
Precision Screw Machined Components		
Year 3	\$ 1,031,864	\$ 81,517
Year 2	\$ 857,474	\$ 55,734
Year 1	\$ 595,224	\$ 36,350
Aerospace Component Machined Components		
Year 3	\$ 502,766	\$ 32,135
Year 2	\$ 466,285	\$ 24,243
Year 1	\$ 420,885	\$ 20,549
Forged Aerospace Machined Components		
Year 4	\$ 745,396	\$ 38,586
Year 3	\$ 811,389	\$ 39,156
Year 2	\$ 806,645	\$ 36,267

Life Sciences Industry



- The Southern Tier has vibrant life science and health-tech sectors, virtually all of which are eligible to obtain R&D Tax Credits
- Industry initiatives at the intersection of life science and software
- New York State Life Science R&D Credit offers a fully refundable credit for start-ups
 - Available for 3 consecutive tax years beginning January 1, 2018
- Key eligible activities:
 - New and/or improved formulations
 - New and/or improved processes
 - Software and life science integrations
 - Systematic testing and integration of new equipment and procedures
 - Research and discovery of new molecules, proteins, enzymes, genes

R&D Tax Credit Case Studies

Life Science



Tax Year	Total Qualified Expenses	Total R&D Credit
Pharmaceutical Manufacturer		
2019	\$2,896,030	\$150,610
2018	\$2,644,779	\$137,543
2017	\$2,706,535	\$126,393
2016	\$2,491,903	\$113,370
2015	\$3,208,575	\$221,192
Sterilization Assay Device Company		
2018	\$1,118,442	\$109,962
2017	\$436,037	\$33,653
2016	\$260,482	\$16,931
Medical Diagnostics Test & Assay Developer		
2018	\$1,667,359	\$116,735
2017	\$1,240,958	\$59,835
2016	\$988,756	\$25,060
2015	\$1,441,625	\$120,310
2014	\$2,451,022	\$147,061
Bio-marker Based Oncology Laboratory Testing		
Year 1	\$3,502,727	\$242,398
Clinical Assay Service and Laboratory		
2018	\$ 3,835,485	\$265,425
2017	\$ 3,502,727	\$ 242,398
2016	\$ 3,125,428	\$ 246,627
2015	\$ 1,361,946	\$ 102,248
2014	\$546,724	\$35,537

Food & Beverage Industry

- Increased demand for food and beverage has led to continuous product and process development
- Food safety initiatives and recent regulations are driving significant process improvements
- Key eligible activities:
 - New and/or improved formulations
 - New and/or improved processes
 - Test kitchen activities, sample production runs
 - Ingredient replacement/substitution, shelf life extension
 - Packaging and distribution improvements

R&D Tax Credit Case Studies

Food & Beverage



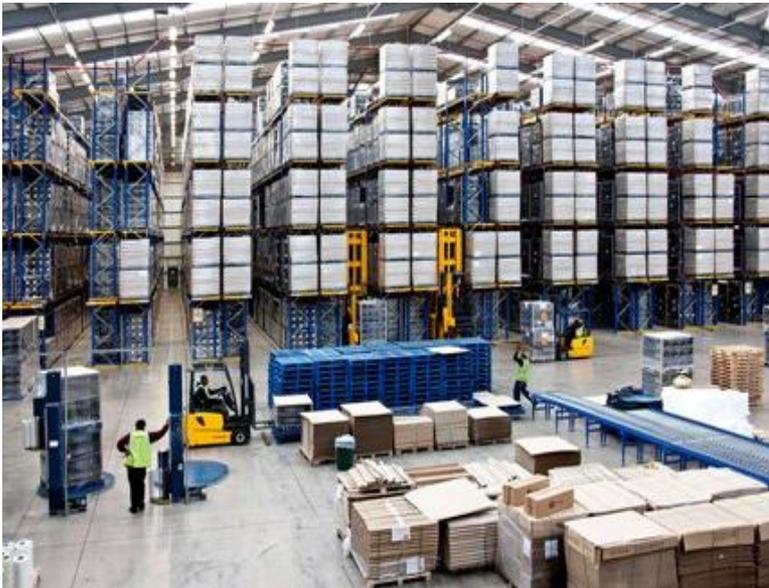
	Tax Year	Total Qualified Expenses	Total R&D Credit
Prepared Foods Manufacturing			
	2018	\$ 1,275,108	\$ 90,538
	2017	\$ 1,102,058	\$ 66,424
	2016	\$ 992,041	\$ 64,152
Craft Brewery			
	2018	\$ 618,539	\$ 45,353
	2017	\$ 504,793	\$ 31,518
	2016	\$ 511,015	\$ 38,021
	2015	\$ 235,054	\$ 15,129
Muffin Manufacturer			
	2017	\$ 555,135	\$ 30,463
	2016	\$ 532,530	\$ 30,886
Sports Nutrition Manufacturer			
	2018	\$ 242,558	\$ 18,640
	2017	\$ 470,273	\$ 31,471
	2016	\$ 408,988	\$ 32,075
Restaurant Food Service & Distribution			
	2019	\$3,615,000	\$ 332,900
	2018	\$ 1,860,000	\$ 159,900
Candy Distributor			
	2018	\$ 613,662	\$ 50,459
	2017	\$ 372,820	\$ 22,805
Pet Food Manufacturer			
	2019	\$1,215,455	\$ 90,739
	2018	\$ 1,356,119	\$ 85,347
	2017	\$ 1,318,937	\$ 72,275
	2016	\$ 1,154,784	\$ 61,380
Kitchen Product Manufacturer			
	2018	\$ 1,226,637	\$ 68,521
	2017	\$ 1,129,821	\$ 46,627
	2016	\$ 1,161,191	\$ 49,788
	2015	\$ 1,351,585	\$ 78,620

Distribution & Logistics

- Growth in online retail and e-commerce have created the need for process efficiency improvements
- New requirements for online retailers to collect sales tax has prompted investments in software & distribution
- Key eligible activities:
 - New and/or improved processes
 - ✦ Increase efficiency of shelving, picking/packing, and location.
 - Software development: WMS, GPS, ERP, etc.
 - Automation, including Collaborative Robots & Materials Handling Systems

R&D Tax Credit Case Studies

Distribution & Logistics



	Tax Year	Total Qualified Expenses	Total R&D Credit
Restaurant Food Service & Distribution			
	2019	\$ 4,125,903	\$ 380,250
	2018	\$ 3,053,381	\$ 263,584
	2017	\$ 1,015,000	\$ 59,700
	2016	\$ 755,000	\$ 37,700
Retail Distribution			
	2018	\$ 1,137,459	\$76,386
	2017	\$ 699,912	\$34,747
	2016	\$ 584,634	\$34,381
	2015	\$ 1,052,215	\$89,097
Technology Product Distributor			
	2019	\$ 723,195	\$37,275
	2018	\$ 651,525	\$33,581
	2017	\$ 699,912	\$45,494
	2016	\$ 584,634	\$38,001
	2015	\$1,052,215	\$68,394
Food Distribution			
	2019	\$ 578,450	\$33,780
	2018	\$ 503,001	\$29,376
	2017	\$ 450,407	\$17,574
	2016	\$ 424,652	\$11,198
	2015	\$ 549,336	\$22,043
E-Commerce Distribution			
	2019	\$ 3,365,019	\$230,242
	2018	\$ 6,124,345	\$227,702
	2017	\$ 4,606,094	\$176,639
	2016	\$ 3,772,086	\$116,721
	2015	\$ 3,179,229	\$88,868

R&D Tax Credit Case Studies

Southern Tier Client Sampling

Pet Food Manufacturer

**Combustion Controls
Manufacturer**

Contract Packaging Company

**Maritime Engineering &
Fabrication**

Aerospace Manufacturer

**Commercial & Residential
Lighting Manufacturer**

Plastic Injection Molding

Managed IT & Cyber Security
Endicott, NY
Ithaca, NY
Syracuse, NY

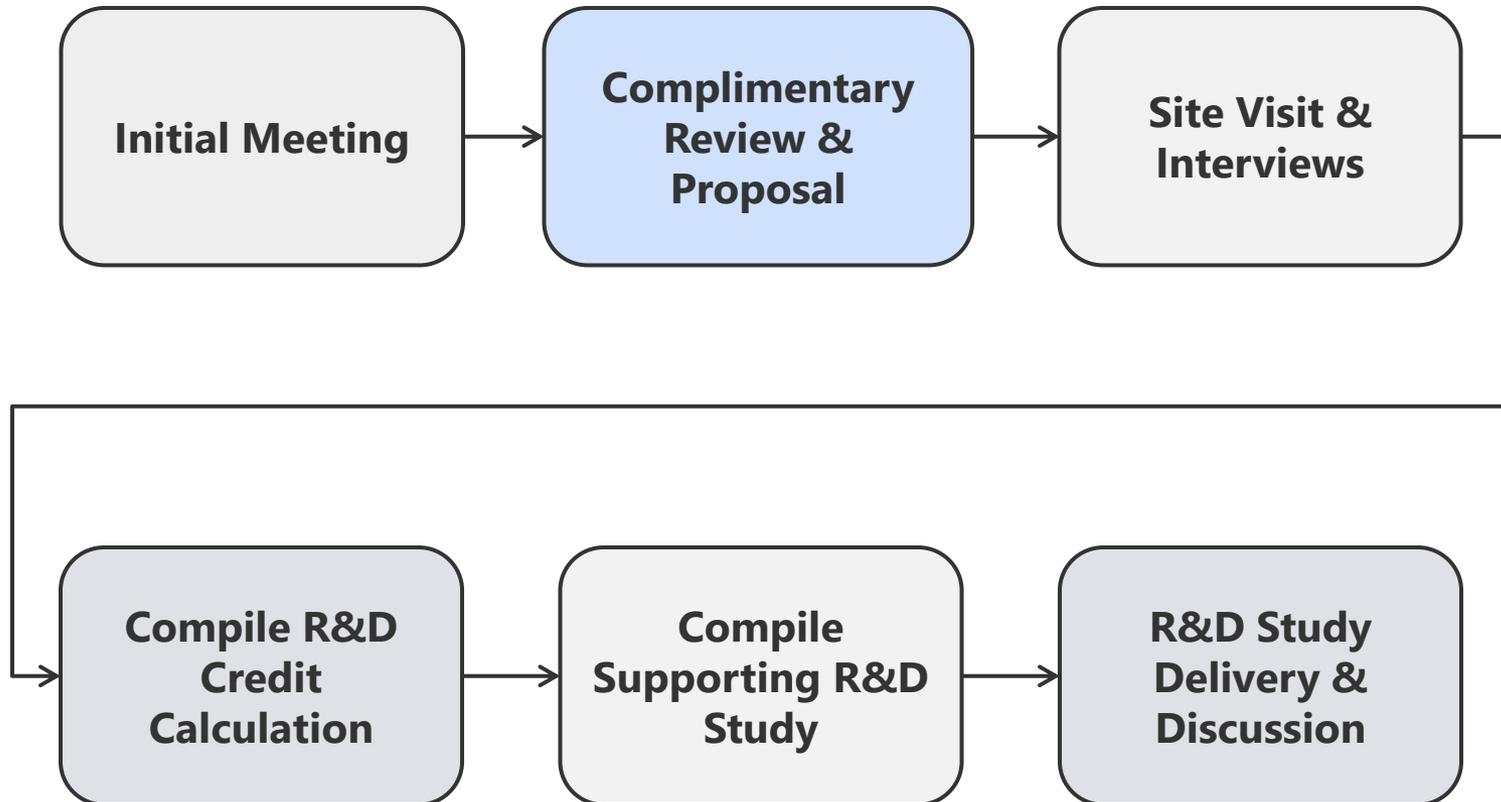
Sample Calculation Page



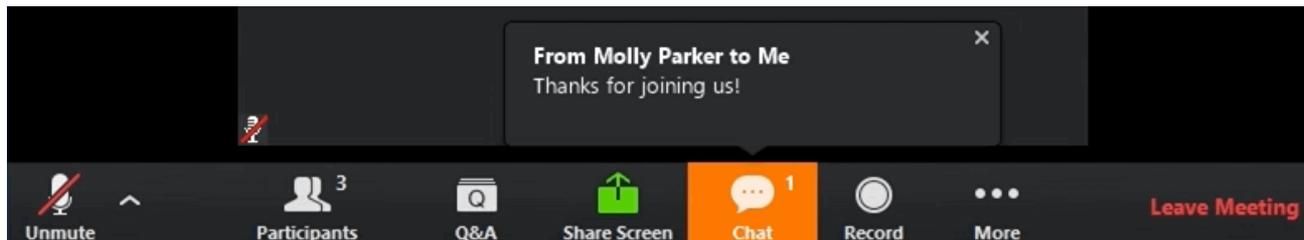
Employee	Title	W2 Salary	R&D %	Salary Adjusted for R&D%
W-2 Wages				
Alan A.	Lead Designer	\$100,000	0.5	\$50,000
Betty B.	Assc Designer	\$80,000	0.8	\$80,000
Carl C.	Assc Designer	\$80,000	0.8	\$80,000
Dave D.	Assc Designer	\$80,000	0.8	\$80,000
Eric E.	Assc Designer	\$80,000	0.8	\$80,000
Fred F.	Assc Designer	\$80,000	0.8	\$80,000
Greg G.	Assc Designer	\$80,000	0.8	\$80,000
Hanna H.	Assc Designer	\$80,000	0.8	\$80,000
Iris I.	Assc Designer	\$80,000	0.8	\$80,000
Jean J.	Dir. Engineering	\$150,000	0.6	\$90,000
Kate K.	Owner	\$200,000	0.2	\$40,000
TOTAL (W2)				\$820,000

Contractors			
Len L.	Outside Consultant	\$100,000	\$65,000
Total (Contractor)			\$65,000
Total (Supplies)			\$115,000
Total Qualified Research Expense (QRE)			\$1,000,000
Approx. Credit			\$60,000

R&D Study Process



- Submit questions through the Zoom chat function



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