

SHAPING YOUR FINANCIAL DESTINY



RESEARCH AND DEVELOPMENT

TAX CREDIT SERVICES

The Internal Revenue Code is quite complex and “taxing.” Corporate and personal federal and state income tax rates can be as high as 45% and are expected to rise. The results of your hard work and determination are being taken away – what can be done to limit income taxes and keep more cash flow in your pockets?

A Research and Development tax credit study is an effective tax reduction tool for companies engaged in qualified Research and Development activities. Benefits include:

- Reduced income taxes and increased after-tax cash flow on an annual basis.
- A possibility of filing amended tax returns to claim R&D tax credits not previously taken for all open tax years.
- Establishing a methodology to use for future R&D tax credit calculations.
- Documentation of credit calculation for support in event of audit.

What Industries typically have R&D that Qualifies for Tax Credits?

- Aerospace
- Automotive
- Biotech
- Computer Hardware
- Chemical Manufacturing
- Food Manufacturing
- Manufacturing
- Software
- Life Sciences
- Telecommunications
- Medical Manufacturing
- Pharmaceuticals

What Type of Activities Qualify as Research & Development?

- Activities undertaken to obtain information useful in the development of a new product or process that is based upon a science and a process of experimentation has taken place.
- Activities undertaken to obtain information useful in the development of an improved product or process that is based upon a science and a process of experimentation has taken place.

Common Examples Include

- Development of prototypes or models (including computer generated)
- Automation of a previously manual manufacturing process
- Testing of new materials for manufacturability and other applications
- Development or improvement upon chemical formulas
- Design and development of products used in manufacturing process
- Addition of new equipment and redesigning manufacturing processes
- Creation of new, or expansion of existing software

Economic Benefits

Federal non-refundable tax credits equal approximately 8% of qualified expenses, including labor, supplies and 65% of subcontract costs incurred in R&D efforts.

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To learn more about how Davie Kaplan can help you with your research and development tax credit needs, contact Alan E. Rich, Jr., CPA/ABV at (585) 454-4161.

New York State tax credits include:

- 9% of qualified labor, supplies and overhead costs applicable to R&D efforts
- 18% of cost of assets purchased and used primarily in R&D efforts
- \$1,000 per increase in full-time employment over 3 year average

NYS credits are refundable, meaning you may obtain a refund in excess of any state taxes actually paid. Benefits are capped at \$250,000 in refundable tax credits per year. To qualify for NYS R&D credits, a company must have fewer than 101 employees, less than \$10 million in gross receipts, and have qualified R&D expenses in excess of 6% of gross receipts (sales).

How Can Davie Kaplan Help You?

The Research and Development tax credit is a "Tier I" IRS issue because of the abuse of the credit by some tax firms. This means that the issue is subject to more IRS scrutiny – especially when filing refund claims for prior year overpaid income taxes. As a result, the computation of the tax credit requires a comprehensive understanding of Internal Revenue Code Section 41 and an ability to convert the technical know-how into an end result that is favorable for the client and defensible upon audit.

Davie Kaplan has tax professionals with the experience and specialized skills necessary for the Research and Development tax credit computations. More importantly, our tax advisors can translate a complicated matter into a clear conclusion in a common sense manner and provide clarity for you, the business owner or financial professional.

We welcome the opportunity to serve you in your tax minimization efforts. Please contact us if you believe you perform activities that may qualify for the Federal and/or NYS Research and Development programs.

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