

Q&A

Businesses can take advantage of R&D credits

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Here, Kopelman discusses Georgia's research and development tax credit, which has been around, in some iteration, for nearly 20 years, and the new federal R&D tax credit that is in the works.

The credits can help companies large and small, and companies can apply for both the state and federal credits.

Q ■ How long has Georgia had an R&D tax credit?

A. Georgia has had some form of an R&D tax credit for 19 years. Over the years, the R&D tax credit has evolved. What's interesting is that today the Georgia R&D tax credit is available for startups, growth companies and large companies. As long as your business has employees in Georgia and you're doing R&D in Georgia, you can convert some, or all, of your Georgia R&D tax credits into cash.

Q ■ Who benefits most? Technology companies?

A. The Georgia R&D tax credit is available for a wide range of industries. If your company is in technology, game development, transaction processing, health-care IT, technology services provider (TSP), cloud service provider (CSP), software development, manufacturing, biosciences, medical device or engineering/architecture, you more than likely qualify.

The Georgia R&D tax credit allows for a dollar-for-dollar reduction against up to 50

percent of personal or corporate tax, and may be carried forward for 10 years.

For example, if you owe \$20,000 of state tax and have a Georgia R&D tax credit of \$15,000, you can reduce your tax by \$10,000 while carrying forward the remaining \$5,000 of credit for up to 10 years. Something important to remember: If your company has employees in Georgia, and you do not have taxable income, you can convert the unused Georgia R&D tax credit into cash. This cash benefit became law in 2009 for companies under 5 years old. In 2012 the five-year limitation was removed, and now any age company can qualify; this is a great way for companies who are not profitable to take advantage of the Georgia R&D tax credit.

Q ■ Are there companies that are typically not taking advantage of the credit that should be?

A. We find that most companies in the technology and manufacturing sectors are not being properly advised as to the available federal and state tax credit benefits. It is important to know that, as long as your business conducts R&D in the United States and Georgia, you more than likely qualify.

A recent survey conducted by Habif, Arogeti & Wynne LLP revealed that a little over 82 percent of Georgia manufacturers are not taking advantage of the federal or the Georgia R&D tax credit. They are leaving cash on the table, which could be used to improve working capital, hire a top sales executive or engineer, or upgrade a piece of equipment.

Here are just a few examples of companies that may qualify:

- Companies working on developing or improving a product, process, software, technique, formula or invention using a hard science, like engineering, whose activities have a level of technical uncertainty that requires an iterative process of experimentation or iteration;
- Technology companies developing a new single- or multi-user game or developing a new software application to be installed or used as an SaaS model; and
- Manufacturing companies that have implemented lean initiatives, integrated new equipment, implemented computer systems, created new manufacturing processes to increase efficiency and throughput, developed new products or improved old products.

Q ■ Are there similar federal R&D tax credits?

A. Yes. The federal R&D tax credit was created in 1981 with the intention of promoting development and scientific innovation in the United States. It was extended in January 2013 as part of the fiscal cliff negotiations. There is synergy between the Georgia and federal R&D tax credits. If you qualify for the federal credit, your company will qualify for the Georgia credit. Today 38 states have a R&D tax credit; fortunately for companies doing R&D in Georgia, the Georgia R&D tax credit is by far one of the best incentives in comparison to other states. The Georgia benefit, in many cases, has more value to a company than the federal credit. Consider a high-growth company

that hasn't been profitable. The federal credit has no current benefit. However, the Georgia benefit can be converted into cash, even if a company has no revenue or taxable income in Georgia.

Q ■ Can companies benefit from the state and federal levels for R&D credits?

A. Yes. A company can take advantage of the federal and state R&D tax credits. The federal R&D tax credit allows for a dollar-for-dollar reduction against tax, and can be carried forward for up to 20 years, if your company is unable to use the credit in the current year.

Q ■ What do you see coming down the pike in terms of R&D credits?

A. At the federal level, there are two important factors you need to be aware of. Legislation has been introduced to the U.S. House of Representatives to make the federal R&D tax credit permanent. Second, Congress is currently considering the Startup Innovation Credit Act of 2013, which allows companies under 5 years old with less than \$5 million in revenue to receive cash for their federal R&D credit. What's fascinating about the Startup Act is that it is very similar to the Georgia R&D tax credit. The U.S. was one of the first countries to enact an R&D tax credit; many countries have now followed suit, often surpassing the benefits offered by the United States. To stay competitive, the U.S. may ultimately increase the current benefits.

Governments establish tax credits, in general, to motivate behaviors from businesses. By offering an R&D tax credit, the Georgia and federal governments are supporting job growth, encouraging technological advances and innovation.

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