

# ATLANTA BUSINESS CHRONICLE

## Taking credit

### CHANGE IN LAW MEANS MORE INCOME THROUGH R&D TAX CREDITS

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Business leaders involved in research and development should take notice of some changes in the tax code that can translate into more money they can invest in their companies.

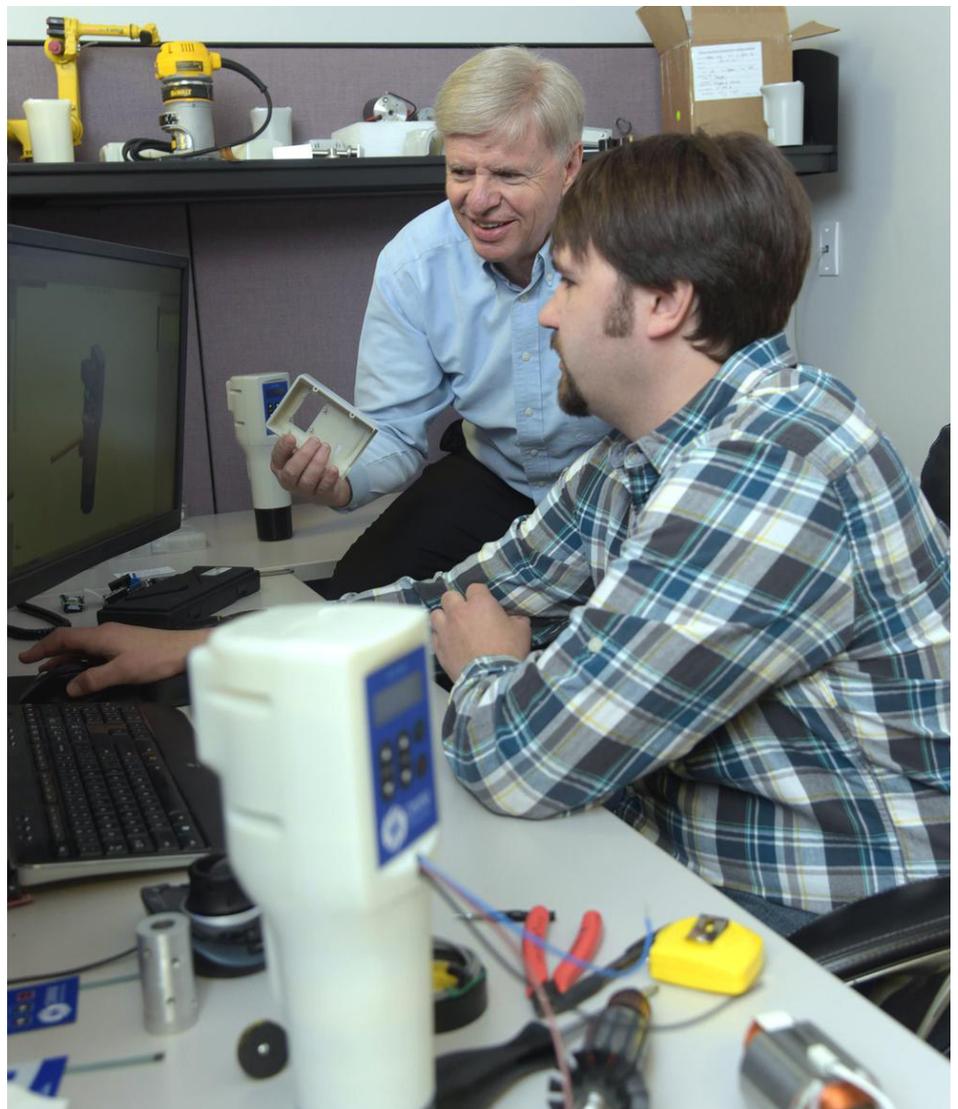
In December, President Obama signed into law tax extenders legislation that will extend over 50 expired provisions of the tax code, including several key pro-business initiatives. Among the most vital is the move to expand and make permanent the Research and Development (R&D) Tax Credit, providing U.S. companies certainty and significant amounts of money they can reinvest in their businesses.

Businesses with less than \$50 million in gross receipts will be able to claim the credit against their Alternative Minimum Tax (AMT). The bill also opens the credit up for startups, allowing businesses with receipts of less than \$5 million annually to take the credit against their payroll taxes.

"It is going to have huge impact for businesses. The whole point behind the R&D tax credit is to enhance innovation in America," said Carli McDonald, director of R&D Tax Credit Services at Habif, Arogeti & Wynne LLP, adding the AMT Turn Off can save small and mid-sized manufacturers engaged in R&D substantial dollar amounts. "Now that the credit is permanent, businesses can plan for it."

For many, the Alternative Minimum Tax has effectively barred the use of the R&D tax credit at the federal level. Knowing that it wouldn't have any tax benefit, many manufacturers previously didn't bother to pursue the credit.

With these changes going into effect for the tax year 2016, McDonald said busi-



*Karl Jahn, president of Omni International Inc., left, says the change to the research & development tax credit law means he will have access to funds that will keep his company competitive.*

## ► CLOSER LOOK

### TIPS TO HELP YOUR BUSINESS IN PURSUING THE R&D TAX CREDIT:

1. Study up on the credit and find out if your business' research and development activities apply for the credit. Don't assume your business is too small.
2. Find a firm that has expertise not only in the tax credit, but with companies your size and in your industry.
3. Ask about their track record helping other companies and find out how much they have been able to get for their clients.
4. Track the money you are spending on R&D.

### QUALIFIED RESEARCH EXPENSES INCLUDE IN-HOUSE AND CONTRACT EXPENSES.

#### IN-HOUSE RESEARCH EXPENSES INCLUDE:

Any wages paid or incurred to an employee for qualified services performed by such employee

Any amount paid or incurred for supplies used in the conduct of qualified research

Any amount paid or incurred to another person for the right to use computers in the conduct of qualified research.

#### CONTRACT RESEARCH EXPENSES INCLUDE:

65 percent of any amount paid or incurred by the taxpayer to any person other than an employee of the taxpayer for qualified research.

nesses should be carefully planning for it because the credit is calculated based on the R&D spend throughout the entire year.

"Now some people may be able to eliminate their tax liability if they have enough credit," she said, adding that the credit translates to 4 percent to 7 percent of their R&D expenses. "For a company that has \$1 million of R&D spend, their federal credit could be between \$40,000 and \$70,000."

Additionally, the Georgia credit allows for up to a 10 percent return that can be applied toward a company's state tax liability. But to qualify for the Georgia R&D tax credit, a company has to pursue the federal tax credit.

Now that the federal law is more business-friendly, McDonald predicts more companies will pursue both. In the past that hasn't been the case. According to the 2014 Georgia Manufacturing Survey conducted by HA&W with Georgia Tech and Kennesaw State University, 82 percent of Georgia manufacturers failed to take advantage of either the state or federal R&D tax credit.

"Some businesses just don't know they could be saving all this money on their taxes. Some don't even realize they are doing R&D because it is broader than most people think," she said, adding some savvy business leaders have been using the credit despite its previous limitations. Last year, for

the 2014 tax year, HA&W was able to save clients over \$21 million in federal and state credits with the R&D tax credit.

Karl Jahn, president of Omni International Inc., said the biggest impact for his life sciences research and development company will be that he will have access to funds that will help keep him competitive.

From his manufacturing facility in Kennesaw, he sells life sciences lab equipment around the world in a highly competitive industry.

"I find myself in a position where I have to reinvest 10 to 20 percent of my costs back into R&D in order to grow the business. In a small business like ours, growing the business is crucial because if we are not growing, we are dying. In order to maintain margins, we have to continually find ways to be better than our competitors," he said.

As an S Corp, all profits and losses flow directly to Jahn personally, meaning he pays taxes not only on his salary but on any income the business generates, so things that translate into profit do not necessarily equate to money in his pocket, he said.

"I think one of the biggest impacts for me will be it will take away from frustration," he said. "I will not have to look at my tax management to the detriment of growing the business. I know every dollar I invest in R&D will have a benefit to the business. I can manage the business on a much more

even keel because I will be able to anticipate the benefits of our R&D expenses. This is a very exciting thing for us."

The money he will have coming in as a result of the law changes will make a dramatic impact.

"We are looking at many hundreds of thousands of dollars and we are not a huge business," he said. "Our ability to continue to grow is tied to cash flow that is why this is such a huge, positive benefit for us."

Lauren Kiefer, chief operating officer of DocAuto Inc., a Norcross-based software developer with about 30 employees, said she will use the proceeds from the R&D tax credit to attract more and better developers to help her build new products.

"As entrepreneurs, we are always learning from our mistakes, but it is hard to accept our mistakes when we are trying to get products out the door and pay employees and grow the business. That means there is not a lot of wiggle room. This tax credit gives us more breathing room," she said.

She said it will give her developers flexibility to be more creative and try some things, and if they don't succeed, it won't be devastating to the company.

With all of Kiefer's developers located in Georgia, this tax credit is a pro business and a jobs creator.

"It gives us the incentive to keep trying until we get it right and gives us an incentive to hire in Georgia and create jobs locally," she added. "We can grow a lot faster. Our ability to hire some of our developers is very contingent on the size of the tax credits. The credit makes it easier to hire the types of developers with the skills set we need."

Both Jahn and Kiefer agree and advise their manufacturing counterparts to learn about the tax credit and to hire a team of accounting professionals who understand how the R&D tax credit works and what it applies to.

"If you don't know or are not properly informed you may think it is something bad, but this is not a shady loophole in the tax law," Kiefer said. "It is designed to be pro-business and can tremendously impact your business' tax liability. I don't know a single businessperson that would say they would rather pay taxes than spend money on other things that grow the business."

"If you are an S Corp, the best thing you can do is find a very astute tax partner that understands what these changes are and how they impact your company so you can do effective tax planning and take advantage of the credits and work them into your business plan," Jahn said.