

## What is the Research and Development Tax Credit?

**Many taxpayers think that tax credits for research and development are enjoyed only by high-tech manufacturing businesses. However, the benefits of the credit can and often do apply to many businesses other than traditional manufacturers including food processors, construction contractors, engineering firms, and wholesale distributors to name a few.**

Congress recently revived a research and development tax credit that will deliver an estimated \$16 billion in savings to U.S. businesses over the next decade. The latest extension to the 25-year-old R&D credit was made retroactive to January 1, 2006. The credit as currently enacted will expire on December 31, 2007.

Section 41 of the Internal Revenue Code provides a tax credit for a taxpayer's spending on "qualified research." The credit is computed as a percentage of the amount a business' qualified research expense exceeds a "base amount" calculated using the business' history of such expenditures and its recent history of gross receipts. The credit is in addition to the tax deduction for research expenditures and the benefit results in a dollar-for-dollar reduction of the business' income tax liability. The credit is usually 20% of the qualifying research expenditures, with the 20% credit being added back to taxable income. However, it may be beneficial to elect a 13% "reduced credit" which does not require this addback in order to maximize the tax-savings. Additionally, due to recent New Hampshire legislation, a state credit for research and development may be claimed for substantially the same activities.

A taxpayer can amend returns to claim credits it missed in prior years. However, with a three-year statute of limitations, every year a business may lose substantial credits that could have been claimed. Therefore, it is important to consider if a research and development study is right for you now.

### What Activities Qualify?

Expenses related to activities companies perform every day to stay competitive can generate credits. Creating new products, improving existing products, improving existing processes - it is not necessary for the improvements to be significant enough to be patentable, just that they meet the following requirements:

- Technology - a hard science such as computer science, engineering, chemistry, or physics;
- Uncertainty at a project's outset related to capability, method or appropriate design;
- Development that uses a process of experimentation including the evaluation and testing of alternatives;
- New or improved function, performance, reliability or quality of a business component. The change must be more than merely cosmetic.

### What is the New Hampshire R&D Tax Credit?

New Hampshire recently reinstated its own research and development tax credit in 2007 that can provide substantial benefit to eligible companies in addition to the benefit that they can receive

from the Federal credit. The research and development tax credit will provide up to \$1 million a year in tax credits to help companies to reinvest in their development and growth. A single company can earn up to **\$50,000 annually in credits** that may be used to reduce either the business profits tax or business enterprise tax liabilities. The credit is currently in effect through July 1, 2013 with any unused portion of the credit available to carry forward for 5 years from the date the credit is claimed. The New Hampshire credit is based on similar factors as the Federal credit although the wages must be for New Hampshire employees.

### How do I Maximize my R&D Tax Credit?

In order to be eligible for the deduction and credit for research activities, a business must be able to support the calculation of which costs qualify. This is where a formal research credit study can be most beneficial. The first step in an R&D study is to conduct a thorough feasibility analysis to determine whether the company's expenditures fall under the R&D credit definitions. If the initial assessment shows potential savings, a complete assessment is conducted that typically includes a site visit, a review of key financial and project information, and interviews with subject matter experts involved in the R&D process, including engineers and product developers among others. If any R&D credit savings are discovered, the process is applied to the current year as well as the prior three years.

**Nathan Wechsler & Company partners with leading national R&D credit-specialist firms to bring you extensive experience in maximizing research and development credit capture opportunities. Additionally, there is no cost to you while we perform a feasibility study. The upside is enormous and the downside is minimal, so please contact us if you would like to discuss further your opportunity to maximize tax savings through the research and development tax credit. Please contact Jared Yeaton at (603) 224-5357 or email him at [jyeaton@nathanwechsler.com](mailto:jyeaton@nathanwechsler.com).**