

Real stories, real money:

How five manufacturers got their fair share of research and development tax credits.



There's a good chance you're eligible to receive research and development (R&D) tax credits for the things you do every day. Even if you don't develop a product, many of your business activities might be defined as R&D for income tax purposes.

The R&D tax credit has been around since 1981, but the definitions of R&D activities have been broadened over recent years. Plus, qualifications and regulations have changed over the years as well. You can even claim the credit for your open tax years (typically three), or all the years you experienced a net operating loss. This could mean a substantial tax credit for you and make a significant difference in your cash flow.

You might be surprised to learn where R&D tax credits are hiding in your business. Over the years, Wipfli has helped many manufacturers identify meaningful tax credits. Here's how Wipfli helped five of them get the credit they deserved.

An injection of cash flow

A \$19M custom plastic injection molding company learned they could claim an R&D tax credit from the design and development of molds to produce parts to customer specifications. Wipfli helped them claim a tax credit of \$310,000 over a four-year time period. With Wipfli's assistance, the company now has procedures in place to claim the credit on an ongoing basis. The company continues to claim a credit in excess of \$100,000 per year. The additional cash savings allowed them to reinvest in additional equipment to help automate their manufacturing processes.

A good history lesson

Wipfli helped a \$335M manufacturer of custom packaging products and labels claim an R&D tax credit of \$330,000 on an annual basis utilizing the Alternative Simplified Credit (ASC). Prior to the enactment of the ASC method, the company was not able to gather the historical data necessary to compute their base period from 1984-1988 as required under the traditional calculation method. The ASC utilizes a base period of the prior three tax years which allowed the company to claim the tax credit for the first time.

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Losses turned to gain

A net operating loss situation proved beneficial from a tax standpoint for a \$32M foundry with a machining center. Wipfli helped them claim an R&D tax credit of \$785,000. Because of their tax situation in which there was a net operating loss carryover from 2001 through 2005 being utilized in 2006, the credit was able to be claimed back to 2001 rather than the three years normally allowed under the statute of limitations.

Precisely the point

Wipfli worked with a \$25M precision metal stamping and progressive tool and die company to claim an R&D tax credit of over \$800,000 for a four-year window. They were eligible to claim the credit on the design and development of dies and the processes needed to produce parts to customer specifications. Wipfli continues to assist them on an annual basis, claiming a credit of over \$300,000 per year.

You could see a substantial tax credit if your company performs any of the following activities.

- Manufacture products.
- Develop new, improved, or more reliable products/processes/formulas.
- Develop prototypes and models, including computer-generated models.
- Design tools, jigs, molds, and dies.
- Nonroutine program of CNC machines.
- Design products to customer specifications.
- Develop or apply for patents.
- Perform certification testing.
- Conduct new concept and technology testing.
- Develop new technology.
- Attempt to use new materials.
- Perform environmental testing.
- Add new equipment.
- Develop or improve production/manufacturing process.
- Develop software or hardware.
- Improve or build new manufacturing facilities.
- Automate/streamline internal processes.

Food for thought

A \$17M manufacturer of carts and other food service and institutional equipment was able to claim an R&D tax credit of \$267,000 for a four-year time period. Wipfli assisted in developing procedures to identify the costs that qualify for the research credit, such as customizing existing products for a customer's specific needs, and continuous improvement activities focused on improving the shop floor operations. The company now enjoys \$26M in annual sales and claims an annual credit of over \$140,000.

To learn more about R&D tax credits and how you could benefit, contact:

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