

GTM HIGHLIGHTS:

- **100% focus** on helping mid-size and large multinational corporations address complex tax operations
- Extensive roster of **Manufacturing clients** at all stages (Pre-IPO to Fortune 1000)
- **25+ years** in business
- **U.S. alliance partner** of WTS Global international tax network

R&D TAX CREDIT FOR MANUFACTURING

Cash Back for Manufacturing Companies

The manufacturing industry is among the top recipients of those that take advantage of R&D tax credit benefits. These companies play a major role in developing and improving products and manufacturing processes to maximize efficiencies and reduce waste, often utilizing new technologies to stay competitive.

The R&D tax credit program incentivizes companies for keeping technical jobs based in the United States. If your company employs individuals with job titles similar to any of the following, there is likely a strong opportunity to get cash back:

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|---|-----------------------------------|---------------------------------|
| • Manufacturing Engineer | • Assembly | • Principal Engineer |
| • R&D Engineer | • Manufacturing Manager | • Product Manager or Specialist |
| • Mechanical Engineer | • Quality Assurance | • Chief Technology Officer |
| • Process Engineer | • Control Systems Engineer | • Product Designer |
| • Production Planner, Supervisor, Manager | • Quality Control | • CAD Designer of 3D Modeler |
| • Inspector | • Machinist | • Head of Quality |
| • Quality Engineer | • Director of Product Development | |

Rewarding companies for these types of investments offers a way to refuel the cycle of innovation, generating capital for companies to hire additional technical personnel and expand their development capabilities.

Generally, if employees are attempting to develop or improve products or processes by way of functionality, performance, reliability, or quality and there is some level of technological uncertainty, there will likely be elements of qualified research activities ("QRA") that may be quantified and translated into cash back for the company.

SPECIFIC EXAMPLES OF QUALIFIED ACTIVITIES

- Developing and testing new or improvements to products or processes to improve the overall functionality, performance, quality or reliability of that product or process
- Designing tools, molds, or dies
- Attempting to increase manufacturing efficiencies – even incrementally – to maximize output or throughput while lowering lead times or reducing waste
- Designing and implementing automation tools using artificial intelligence, big data, or machine learning to automate phases of a manufacturing process
- Designing, developing, or testing prototypes including 3D models and computer simulations created as part of the engineering process
- Testing materials or material alternatives to evaluate its quality or functionality for a specific product
- Attempting to develop supply chain efficiencies throughout the product development life cycle
- Attempting to reduce the cost of developing and manufacturing products

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WHAT IS AN R&D TAX CREDIT?

The federal R&D tax credit is a dollar-for-dollar reduction of your income tax liability based on qualified research expenditures exceeding a base amount. The tax credit is comprised of expenditures related to qualified research activities, including:

1. **Employee Wages:** A portion of W-2 Box 1 “taxable” wages for employees who directly perform, directly supervise, or support QRA.
2. **Supplies:** Tangible, non-depreciable parts or materials used and consumed throughout the development and testing process.
3. **Contract Research Expenses:** Typically, 65% of the portion of qualified spend for contractors or outside vendors (e.g., CRO) who are directly involved with QRA, where the rights and risks criteria are satisfied.
4. **Cloud Hosting Expenses:** Portions of payments made to Cloud Service Providers (CSPs like Amazon Web Services) for development or test environments.

CAN START-UP COMPANIES BENEFIT FROM R&D CREDITS?

Yes. Both startups and small businesses may qualify to utilize up to \$250,000 of their federal R&D tax credits against the FICA portion of their payroll taxes per year for five separate taxable years, for a total of \$1,250,000. To qualify, companies must have:

- Less than \$5 million in gross receipts for the taxable credit year; and,
- No gross receipts more than five years prior.

WHY CHOOSE GTM?

GTM offers extraordinary value through our unique, efficiency-driven methodology designed to minimize client time commitment, identify high-scrutiny and non-traditional areas of eligibility, and produce the documentation that the IRS needs. We also offer transitional and training services so you can ultimately identify and claim credits internally.

DO STATES OFFER R&D TAX CREDIT INCENTIVES?

In addition to the federal credit, more than 30 states offer similar incentives. In fact, some are more generous than the federal program. Most – though not all – state programs follow the guidelines of the federal credit when it comes to qualified research activities and qualified research expenses. They also, like the federal rules, require activities to be performed in their jurisdiction to qualify.

State R&D credits are a lucrative opportunity that taxpayers should not ignore. Quite often they represent greater value to taxpayers than federal R&D credits. Generally, they have been an add-on to the federal program and not given the attention they deserve. State credits can drive location decisions, and they can provide cashflow. Whether it is transferring credits for cash, or selling credits, they can provide immediate value even for start-ups and companies with net operating losses.