Research and Development Tax Credits

Learn How R&D Tax Credits Can Help Your Business

As business owners, how do you find the money to reinvest in your shop and stay competitive?

- **Retain Employees**
- **Rising costs**
- **Health care**
- **Capital intensive industry**
- **Raw material**

- **All on 4 -5 cents from every sales dollar**

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What if you could reduce your tax liability AND reinvest the savings into your business to:

- Be More Competitive?
- Grow Faster?
- Increase Profitability?

U.S. companies in more than 40 industries now claim billions of dollars in R&D Tax Credits every year.

How Big Is Your Credit?

Let’s Learn How This Can Apply To Your Business.

Who We Help?

Business Owners

Business owners in a wide variety of industries throughout the U.S. A typical client is $5 million to $100 million in revenue and is profitable.

They are interested in being more competitive, growing faster, and being more profitable.

If you are doing R&D, so are your competitors. But if they are receiving the tax credits and reinvesting those savings back into their business and you aren't, it could put you at a significant competitive disadvantage.

What is the R&D Tax Credit?

A tax incentive provided by the U.S. government to encourage businesses to invest in activities within the U.S. that will provide for product and process improvements and/or the introduction of new products or processes

Applicable to C-Corps, S-Corps, LLC's Partnerships, Sole Proprietorships and Joint Ventures

What is the Intent of the R&D Tax Credit?

History of the R&D Tax Credit

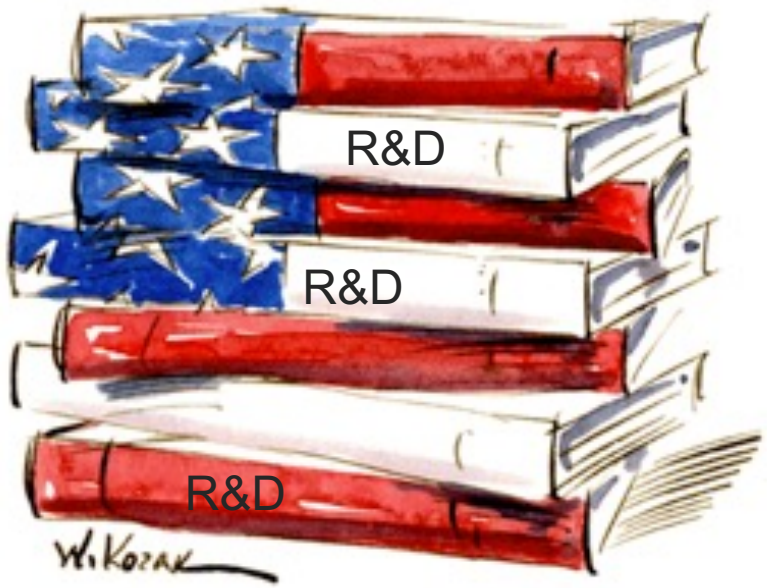
R&D Tax Credit history is over 40 years old

Used by the majority of Fortune 1000 companies

Much legislative activity

Signed into law 2016

Valid tax planning opportunity



Get Credit for your investment

R&D spending includes:

- **Internal labor (i.e. salaries, wages, bonus)**
- Direct activity
- Direct **supervision** of activities
- Direct **support** of activities
- **Supply costs (prototype costs, lab supplies, etc.)**
- **External labor (contractor payments) if:**
- Payment is contingent on success (fixed price)
- Rights are retained as to the R&D

Where is the R&D Activity in my shop?

Qualified R&D spending takes place in many areas within a business, not just in R&D or Engineering department

EXAMPLES OF THE MANUFACTURING VALUE STREAM

Activities that are R&D Friendly – 4 part test

To qualify as a legitimate R&D activity, it must be:

- Conducted for a permitted purpose
- Intended to resolve technical uncertainties
- Involve a process of experimentation
- Use a permitted science
- Rights and Risk

Any new or improved product, process or software development initiative has potential for R&D tax credit qualification

1) Permitted Purpose Test:

“What is the goal of this project?”

Intended to develop or improve a product or process.

EVOLUTIONARY DEVELOPMENT

Functionality / Performance
Quality / Reliability
Cost Reduction
Process Improvement

2) Technical Uncertainty Test:

“What is not known at the outset of the project?”

The uncertainty for developing or improving a product of process.

Can you reach the goal?

How are you reaching the goal?

Did every project provide the quoted profit margin?

3) Process of Experimentation Test:

“What was done to eliminate the uncertainties?”

- Prototype
- Testing
- Cad Modeling
- Re-Design Tooling
- Modify Process
- Evaluating Alternatives
- Make Corrections
- What Have You Done to Still Provide Product to Your Customer ?

Failure is Rewarded

4) Technological in Nature Test:

"What science is being relied upon as you perform the activity?"

- Engineering
- Physical Sciences
- Computer Sciences
- Biological Sciences

No Social, Economic or Psychological Sciences

CASE STUDIES

Case Study #1

Stamper and Progressive Die Manufacturer

$865,000 + Total Tax Credits Identified

- **Goal** – To build progressive dies that meet the ridged requirements and produce products to meet customers expectations.

- **Technical Uncertainty** – How to create and design tooling that will meet print and cost expectations.

- **Experimentation** – They created different designs before trying one which incorporated multi-forming stations to hold dimensions, which hit the perfect balance between quality, run speed and cost objectives.

Case Study #2

Industrial Plastics Fabricator for OEM Manufacturing, Industrial Machinery, Military, and Telecommunications

$289,000+ Federal and State Tax Credits

$691,000+ Total Tax Credits Identified

Goal- To develop a new composite material to be used in oil and gas and to develop a fabrication technique for a 2-part assembly. To identify equipment and tooling that would enable fabrication of the newly developed material

Technical Uncertainty- Whether or not the new composite material would outperform the traditional metal material under hydraulic pressures

Experimentation- They ran tests on the material to ensure it would withstand the pressure needed

Case Study #3

Sheetmetal Fabricator Manufacturer

$1,300,000+ Total Credits Identified

Goal- To design and manufacture custom product while meeting unique customer specifications

Technical Uncertainty- Could engineers design and build products meeting print requirements, cost constraints and customer's changing specifications?

Experimentation- Engineers performed and evaluated multiple design process reach the goal.

Case Study #4

YOUR COMPANY – WRITE YOUR STORY

Goal- To design tooling, laser process, fab, welding, robotics, 3D printing to manufacture components for your customer and to your customers specification.

Technical Uncertainty- How to use the technology to improve the process and product outputs.

Experimentation- They experimented with tool designs, progressive turret tooling, (insert your process here) using a new technology to improve quality, and production, with reduction in quality issues that meet the 4 part test.

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Think About Your P&L Statement

Case study #1 -$865,000 in Tax Credits

What would you buy to improve your business?

If you can answer YES to these…..

Is your business manufacturing a product of either your own design or your customer?

Is your business greater than 5M in revenue?

Do you have 25+ Employees?

Is your business profitable?

We should talk to learn how big your credit could be…

What Documentation is Needed to Sustain an R&D Tax Credit?

Retain research activity documentation, such as:

- Email Communications which show failures, problems, or concerns encountered during the development
- Product or Project Specifications, Descriptions, or Proposals
- Technical Reports / Test Reports and Results
- Documentation of alternative supplies/materials/technology evaluated
- Project Diagrams/Drawings/Pictures including older versions and conceptual drawings which differ from the final product
- Issue Logs / Meeting Minutes /Flowcharts or Time Schedules / Schedules of Releases
- Patent Applications or Abstracts
- Contractual Agreements with Consultants and Customers

Final Thoughts…

Benjamin Rashleger, Former President and CEO of WSI Industries said,

"I am amazed how many manufacturers do not realize or understand the IRS's definition of R&D Tax Credits.

If you make or improve a product or a process, either for yourself or your customer, you have activities that qualify for the R&D Tax Credit. This credit can substantially reduce your Federal and State tax liability."

John Madsen
John@blacklinegrp.com
(763) 746-1265

600 Hwy 169 South Suite 250
Minneapolis, MN 55426
www.blacklinegrp.com