



# Don't Miss Out on Big Changes to the R&D Tax Credit

The recent enhancements to the R&D Tax Credit by Congress means that significantly more plastics companies will be able to claim the credit starting in 2016. Specifically, the ability to apply R&D Tax Credits against the Alternative Minimum Tax (AMT) will be a game-changer.

Under the current rules, including for 2015, it has not been uncommon for companies to be able to generate meaningful R&D Tax Credits, but the company and/or their shareholders not be able to use the credits because of the AMT. So, you need to do your homework.

When considering whether to pursue the R&D Tax Credit, there are three things that companies should assess: 1) Can a meaningful federal credit (and state depending on where the company is located) be generated that will provide good value to the company 2) If or when the credits can be used? Just because a credit can be generated doesn't mean it can be used 3) Is there documentation to support the R&D Tax Credit claim being made?

An experienced company like SPI business benefit partner, Black Line Group is a company that specializes in this area of the tax code, and that can help determine if your company has an opportunity to pursue and what to think about. Black Line Group is not an accounting firm and works closely with a company's CPA firm to ensure effective implementation.

Black Line Group's approach is to first do a no-cost assessment to see if there is a meaningful opportunity for a company to explore, and if ultimately engaging a specialist like Black Line Group makes

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with the R&D Tax Credit

sense. The first step is a 60–90 minute discussion to better understand what is taking place within the company from an R&D standpoint. This discussion focuses on the manufacturing side of the business, and therefore the people we want to talk with are those directly involved with those activities. Typically this will be someone like a VP of Operations, Engineering Manager, Engineers and/or an owner that's very technical. Owners can also often provide some historical perspective that is important in evaluating the opportunity.

In addition to knowing what size credits a company can generate, we want to know if the credits can be used. With flow-through entities like an S corporation, the credits get allocated to the shareholders to use on their personal tax returns. However, most shareholders don't understand whether they are limited by the AMT which is why it's important to include the accountant in on the process. The accountant can easily provide insight as to whether the credits can be used. It's important to note, as mentioned above, that starting in 2016, credits can be applied against the AMT in 2016 for those companies whose three prior year's average annual revenues are less than \$50 million, and applied against the Employer FICA Payroll Tax for certain start-up companies whose revenues are less than \$5 million.

If, after gathering all of this information, it looks like meaningful credits can be generated and that most/all of the credits can be used, Black Line Group would offer a proposal that would explain what the process entails, what the fees are and what the company can expect from a time and resource requirement to complete the project.

At this point, your company can make an educated decision as to whether there is the value and ROI to proceed.

It's early in the year. Immediately start tracking/improving your documentation so that you are in a good position to pursue the R&D Tax Credit. ■

### Learn More:

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