

Case Study

SITUATION

An Ohio-based injection molding company reached out to Tax Credits Group (TCG) for a free R&D tax credit assessment and analysis. The company had been claiming the federal Research & Development tax credit for some time, but had concerns that they were not maximizing their credit—nor developing the kinds of procedures that would allow them to substantiate their credit claims should they be selected for audit by the IRS.

TCG RECOMMENDATIONS

Based on the assessment, TCG estimated that not only had the customer undervalued its credits in the amount of \$350K, they were at substantial risk of losing their entire credit if required to support their claims under IRS audit using their current procedures.

As a result, TCG recommended that a new R&D tax credit study be completed. In this study, TCG would fully examine the company's R&D activities to identify a complete list of qualifying vs. non qualifying projects, ensure that all QRE costs were being accumulated properly, and either locate or develop the appropriate level of documentation to support their claims.

ASSESSMENT FINDINGS

Upon meeting with the company and reviewing their prior claims, TCG learned that, while the company had been claiming the incentive for a number of years, they had never revisited their calculation methodology or reevaluated the qualifying research expenditures that were included in their calculation. TCG soon recognized that the molder was failing to maximize their calculation in two areas; wages and supply research expenses:

Wages: The company had taken a far too narrow approach when determining which employee's activities would qualify for the credit, and thus were failing to pull into the calculation wages of direct supervisors and direct support staff.

Supplies: When evaluating R&D supply costs, the company had not kept up to date on recent rules and regulations, which provide manufacturers (under certain conditions) the opportunity to include mold costs into these expenses.

Further, the company was not retaining any type of internal records in support of their credit claims. Nor were they keeping any type of summary narrative or documentation in support of R&D projects, increasing their risk of having their credit claims disallowed under audit.

OUTCOME

Based on these recommendations, the customer engaged TCG to complete a 2016 R&D tax credit study. After applying the additional QREs discovered during the assessment phase, TCG was ultimately able to secure the company a federal credit in the amount of \$300K, an amount that was approximately 200% higher than internal estimates for the year.

Further, TCG was able to work with the customer's engineering staff to develop detailed project summaries regarding the qualifying R&D activities, and to secure a variety of additional documentation supporting the efforts—giving the company solid documentation to justify their credit in the event of an audit.

Based on the favorable results of the 2016 findings, the client engaged TCG for a 2015 and 2014 look-back study. Utilizing the same methodology as 2016, TCG was also able to double the credits in each of these additional tax years, while also securing the client an additional \$81K in Ohio credits they were eligible to receive, but were unaware of.

The client has subsequently engaged TCG for a 2017 R&D tax credit update study which will include analysis of both federal and state activity.

