

SITUATION

A medium sized multidisciplinary design and engineering firm, with revenues of approximately \$15 million, was engaged in a variety of different projects ranging from electrical power systems, instrumentation and controls, telecommunications, and distributed antenna systems.

Though the company had heard of the R&D tax credit, they were uncertain as to if the projects they were engaged in would qualify for it, and if so, what their estimated credit benefit might be. In addition, the company was concerned that the investment of internal resources needed to secure the credit might outweigh any benefits received.

ASSESSMENT FINDINGS

TCG performed a free, on-site scoping session for the firm. TCG initially reviewed the credit rules and requirements with the company. They then reviewed study year project lists with key management personnel to verify if there were qualifying research and development projects within the various disciplines. This effort helped TCG to understand the types of qualifying activities occurring in each discipline, to determine the estimated amount of qualified research expenditures for qualifying research efforts, and to gain an understanding of the company's project tracking capabilities.

Based on this initial analysis, TCG concluded that R&D was occurring within some of the product and service disciplines. Thus, an estimated benefit calculation was prepared and reviewed with the client. Based on the estimated opportunity of benefit, the client signed off on a letter of engagement to commence a formal R&D tax credit study for the current tax year.

R&D STUDY PROCESS

To initiate the study, TCG provided the client with a Study Information Request (SIR) outlining the items required for the preparation of the study. (Items included but were not limited to project lists, project tracking reports, wage data and subcontractor expenses for both the study year and base years.)

A kickoff meeting then took place between TCG and key management and staff at the company. During this call, the SIR was reviewed so that personnel could begin to accumulate the required information as quickly as possible. A date was then scheduled for TCG to come out on-site and conduct fieldwork.

R&D STUDY PROCESS (continued)

During the three-day site visit, TCG worked on qualification and quantification of R&D activities. TCG obtained and reviewed the requested wage, subcontractor expense, and project tracking information while onsite, so that any questions or follow ups could be immediately addressed with staff.

Additionally, in order to document R&D activities within the company, and to minimize the burden on any specific member of the staff, interviews were performed with the managers of each discipline.

During these 1-2 hour meetings, TCG gained an understanding of the number of staff involved in each discipline, along with the type of qualifying and non-qualifying activities that these individuals were involved in, and the overall amount of R&D time incurred by the employees during the study year and base years.

Specific R&D projects were also identified and documented through a Project Qualification Questionnaire. This Questionnaire was then included in the final study report to demonstrate and document that the projects performed by the company met the requirements of the research tax credit. This was an efficient process that required a minimal amount of engineer's time, yet resulted in fully documenting that the credit requirements were met for each project.

Based on the work performed with the department managers, TCG identified 58 employees directly performing, directly supervising, or directly supporting qualifying research activities. An R&D percentage was then determined for these employees individually or in groups of employees performing similar activities. In total, TCG determined there to be nearly \$1.5MM in qualifying wages.

Several subcontractors were also identified as qualifying, and the appropriate percentage of research and development performed by those vendors. In total, over \$1MM of vendor expenses were included in Qualifying Research Expenses.

OUTCOME

Based on the work performed during the study and base periods, TCG returned for the company a federal research tax credit in the range of \$200,000. Due to the success of this study, the client engaged TCG for the subsequent tax years. In total, TCG has secured over \$600K in tax credits for the company.