

DO CONTRACTORS QUALIFY FOR THE FEDERAL RESEARCH CREDIT?

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Many companies overlook the research credit because they think it's limited to companies that conduct laboratory research, such as biotech, pharmaceutical, chemicals or high-tech manufacturing firms. But the credit is available to any company that invests in developing new or improved products or processes in most industries including architecture, engineering and construction.

The PATH legislation made in late 2015 was a game changer and made the credit more beneficial for businesses and start-ups for two primary reasons. First, the legislation allows small businesses to take the R&D tax credit against their alternative minimum tax (AMT), which often restricted or even eliminated the owners' ability to utilize the research credit. The AMT restriction has long been preventing qualified companies from utilizing the research credit, so this new legislation removes that hurdle for any companies with less than \$50 million in gross receipts. Secondly, PATH allows startup businesses with gross receipts of less than \$5,000,000 to take the R&D tax credit against their payroll taxes (essentially making it a refundable credit for up to 5 years) of up to \$250,000 per year. If your business hasn't been claiming the research credit now may be a good time to revisit this valuable tax break.

To qualify, research activities must:

- Strive to discover information that's technological in nature,
- Relate to a new or improved "business component," such as a design, product, process, computer software, technique, formula or invention,
- Be designed to eliminate uncertainty concerning the development or improvement of a business component, and
- Be part of a "process of experimentation."

Many innovations unique to the construction industry are eligible for R&D credits, which can include:

- Design/development/improvement/modification of buildings or structures to enhance performance, functionality, reliability or quality
- Design/development/implementation of new or upgraded electrical, mechanical, toxic waste disposal or HVAC Systems for better performance, safety or energy efficiency
- Design of master plans, building facades, or schematic drawings for integration of system components
- Design coordination and value engineering in plan-spec and design-assist projects
- Programming or testing of control systems
- System testing for site requirements including acoustics, air quality/balance, and false loading
- Foundation design or analysis for unique site conditions
- Testing, evaluation and analysis of new or improved building construction materials
- Construction equipment design, development or improvement
- CADD (Computer Aided Design and Drafting) and BIM (Building Information Management) Modeling
- Software development or IT initiatives related to product or process developments
- Building designs for LEED (Leadership in Energy & Environmental Design) certifications

The tax credits can be a significant tax benefit to your personal tax return if the business is structured as a flow through entity (i. e. S-Corporation, LLC, etc.). If the business is structured as a C-Corporation, the credits generate tax savings by offsetting taxes on the business's tax return.

Get the credit you deserve

R&D tax credits benefit many construction businesses and should benefit the company investing time and energy into the activities mentioned above. If your company commits resources to developing new or improved products or processes, it pays to consult your tax advisor to see if you qualify for research credits.