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## Foreign-owned manufacturers eligible for R&D credit

Author: RP news wires

The research and development (R&D) tax credit was created by Congress as part of the Economic Recovery Tax Act of 1981 to encourage American industry to invest in research and development activities. The purpose of the credit was to stimulate R&D

activities among businesses through tax incentives and to keep or even increase manufacturing jobs here in the United States.

Similar R&D tax credit incentives exist in most other developed countries.

### **Foreign Manufacturers Can Take the R&D Tax Credit**

It is not widely known that the R&D Tax Credit can also be taken by foreign-owned manufacturers that have U.S. operations and that are performing qualifying activities. This makes perfect sense since these activities create jobs for Americans. The credit would only take into account activities taking place in the U.S.

Now you can take advantage of these incentives from both your home country and the U.S.

The following industries have benefited from taking the R&D Tax Credit:

- Manufacturing
- Fabrication
- Engineering
- Software development
- Architecture
- Tool and die machine shops
- Electronics
- Biotechnology
- Pharmaceutical

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Here are a few examples of companies and their net R&D tax credit:

**1) Tool & Die Shop**

Average four-year payroll of \$3.5 million

Net credit benefit for 2004 thru 2007 tax years: \$200,000

**2) Foam Products Manufacturer**

Average four-year payroll of \$19.5 million

Net credit benefit for 2004 thru 2007 tax years: \$1,200,000

**3) Software Company**

Average four-year payroll of \$6.5 million

Net credit benefit for 2004 thru 2007 tax years: \$500,000

**4) Custom Plastics Products Manufacturer**

Average four-year payroll of \$11.5 million

Net credit benefit for 2004 thru 2007 tax years: \$700,000

As you can see, even for smaller-sized entities, the tax benefits can be significant if you consider the amount of revenue that it would take to generate the same net benefit. In addition, the IRS allows you to go back three years and receive a refund for the missed credits for the previous years.

***Recent Changes Make It Even Easier to Take Your Credit***

Prior to 2001, mostly large companies could only take advantage of the R&D tax credit. Due to the stringent requirements that existed under the provisions of the credit, a vast majority of the small to mid-size companies were unable to reap the substantial benefits of the R&D credit. Realizing that a majority of innovation in the U.S. was in fact transpiring from these small to mid-size firms, Congress in 2001 liberalized the statutory requirements to enable small and mid-size companies across the U.S. to take advantage of the R&D benefits.

Specifically, the new regulations provided that companies were no longer required to maintain precise timesheets documenting every hour an employee spent conducting qualified R&D activities. Furthermore, the research no longer had to result in a product that was new to the industry; instead, the resulting product or process simply had to be new to the company that developed it.

***Find Out If Your Company as a Foreign-Owned Manufacturer Qualifies?***

Karim Solanji, J.D., with Paradigm Partners, a national tax consulting firm specializing in the R&D Tax Credit, says "With a \$4 million payroll, your refund can be \$200,000, and for larger payrolls, the refund can be in the seven figures. For a nominal and, in most cases, refundable fee, you can determine if you qualify for the credit, the amount of your credit and whether you can utilize the credit. Our experience has been that if you are a manufacturer, then your company is performing qualifying activities. So, the real question becomes 'Can you utilize the credits?' and that is based on your financial structure and profitability status."

***Summary***

If you are a U.S.-based manufacturer or you have financial responsibility for a foreign-owned manufacturer with operations in the U.S., then you need to find out if your company is eligible for the R&D tax credit. The R&D tax credit can pay big dividends for your parent company so do not delay as, with most incentives, if you miss a deadline, you can lose between 25 to 33 percent of the credit.

***About the authors:***

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