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# Executive Memo



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## The Big Boom

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The Big Boom is that loud noise signaling the beginning of a mass exodus from the manufacturing workforce population. It is not from the recession, or the ongoing layoffs facing manufacturers today; it is from the nearly 77 million Baby Boomers that will be leaving (or have left) the general workforce over the next 20 years. While current economic conditions may have pushed some of these Boomers' retirement plans back a few years, the exodus has most certainly begun. The first of these Boomers actually retired on October 15, 2007,

when Kathleen Casey-Kirshling of New Jersey (born Jan. 1, 1946 at 12:00:01 AM) filed for Social Security.

This ushers in the start of a new type of employment problem: Not enough qualified workers for open positions.

A report from the American Society of Training and Development (ASTD) estimates that only 46 million new hires will be available as replacements for the 77 million Boomers retiring. And while the noise caused by 77 million people leaving the workforce will be tremendous, the deafening boom caused by the knowledge drain these same employees take with them into retirement will be much, much louder. Years of critical decision mak-

*(See BOOM on page 3)*

## Treasury Report: Manufacturers Raked in Almost \$6 Billion Using the R&D Tax Credit

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The Office of Tax Policy in the United States Department of the Treasury released a report titled "Investing in U.S. Competitiveness: The Benefits of Enhancing the Research and Experimentation (R&E) Tax Credit" on March 25, 2011. The R&E Tax Credit is more commonly known as the R&D (Research & Development) Tax Credit.

The purpose of the Treasury's report was to outline the President's proposal to enhance the R&D Tax Credit by making it permanent, increasing the use of the simpler version of the credit and increasing the total amount of the credit by 20 percent. The report also makes a case of why the R&D Tax Credit is so effective in increasing research in the US and keeping and increasing high-paying jobs here.

One of the challenges of tax consulting firms specializing in R&D Tax Credit

studies is to convince corporations and their CPAs that they do indeed qualify for the R&D Tax Credit. When we hear terms such as R&D or Research and Experimentation, we think of people in lab coats, experimenting with chemicals, and blowing things up. The reason that many corporations and almost all manufacturers qualify for the credit is the IRS definition of what constitutes R&D, it is nothing like we would imagine.

The article titled "Machine shops, job shops qualify for the R&D credit" discusses the IRS definition of R&D in more detail. Here's a link to the published article: <http://www.paradigmpl.com/userfiles/file/InsideBusiness-Article.pdf>.

The focus of this article is to elaborate on the extent to which the R&D Tax Credit is being taken across all industries, with emphasis on the manufacturing subsectors. The information includes both the numbers of corporations that have taken the credit and the amount of money that has been claimed for the credit by these corporations.

*(See MANUFACTURERS on page 5)*

# Manufacturers *(Continued from page 1)*

## Corporations Claiming the R&D Tax Credit: \$8.3 Billion

Tax Year 2008 is the most recent available for corporate tax returns. The data showed that 12,736 corporations claimed \$8.3 billion in research credits and 64,000 individual taxpayers claimed \$463 million in research credits. That's almost \$9 billion.

Table 1 shows the amount of the credit claimed by corporations in Tax Year 2008 by industry sector. It shows that corporations in the manufacturing sector accounted for about 43 percent of all corporations claiming the credit. Those manufacturers claimed almost 69 percent of the total dollar amount of credits.

*Note: Corporations included in this count are C corporations, i.e., corporations subject to an entity level tax. Tax credits earned by corporations that are not subject to an entity level tax, such as S corporations, flow through to their shareholders and are claimed on the shareholder's individual income tax return. The same is true for tax credits earned by partnerships, which flow through to the partners.*

## Manufacturers Claiming the R&D Tax Credit: \$5.8 Billion

To break it down even further, the IRS provided a second table listing all the manufacturing subsectors taking advantage of the R&D Tax Credit. The list is extensive and it confirms that virtually any manufacturing company will qualify for the credit. See Table 2 below.

**Conclusion.** Based on Tax Year 2008 data, the R&D Tax Credit is being used by corporations in 14 different industries, the largest being manufacturing to the tune of \$5.8 Billion. And within manufacturing, 20 subsectors are taking the credit. Obvious manufacturing subsectors include Computer and Chemical, but other subsectors such as Textile Mills, Apparel and Leather are also using the R&D Tax Credit.

As is the way of the IRS, and over 70,000 pages of tax code, confusion, doubt, and disbelief causes most enterprises to believe they cannot qualify for this incentive. Based on the statistics above, participation in this credit is less than 10 percent of the amount budgeted for U.S. Enterprises.

In order to maximize this credit, you need a specialist. A specialist with the legal, engineering, and knowledge to not only maximize this credit, but sustain it for years to come.

As an owner or financial executive of a company, you need to contact a consulting firm specializing in the R&D Tax Credit to find out how much you may have overpaid in taxes by not using the credit. The amount can be substantial because you can go back three open tax years and do look-back studies for those missed years and receive a refund for those overpaid taxes.

With the recent passage of the Small Business Jobs Act (SBJA) in September of 2010, Any company under \$50 million in sales can not only take advantage of the credit if they qualify, but can use it to offset "any taxes paid" from the previous five years. Normally, you can carry unused credits forward up to 20 years or back only three years, but the SBJA extended the carry back to five years for 2010.

Depending on the size of your company, the credit can range from tens of thousands to hundreds of thousands of dollars for the current year and three previous years. Don't delay, contact a specialist today to find out how much you can reduce your current year taxable liability and how much of a refund you can get for overpaid taxes in previous tax years.

Follow the link below to read the entire Treasury Report: <http://www.paradigmmlp.com/userfiles/file/ResearchandExperimentationReportFINAL.pdf>.

**Table 1. Corporations Claiming Research and Experimentation Tax Credit: Tax Year 2008**

Industry	No. of Returns	R&D Credits Claimed (1,000s)	No. of Returns as Percent of Total	Amount Claimed as Percent of Total
All Industries	12,736	8,303,369	100.0%	100.0%
Manufacturing	5,420	5,758,082	42.6%	69.3%
Information	1,132	944,284	8.9%	11.4%
Professional, scientific and technical services	3,932	787,671	30.9%	9.5%
Wholesale and retail trade	865	430,098	6.8%	5.2%
Finance and insurance	237	142,599	1.9%	1.7%
Management of companies (holding companies)	276	62,091	2.2%	0.7%
Utilities	129	48,855	1.0%	0.6%
Various services	194	43,942	1.0%	0.5%
Mining	36	29,997	0.3%	0.4%
Administrative/support and waste management services	288	22,373	2.3%	0.3%
Transportation and warehousing	58	10,593	0.5%	0.1%
Construction	56	10,278	0.4%	0.1%
Real estate, rental and leasing	30	7,453	0.2%	0.1%
Agriculture, forestry, fishing and hunting	83	5,054	0.7%	0.1%

Source: Internal Revenue Service at:

<http://www.irs.gov/taxstats/article/0,,id=164402,00.html>

**Table 2. Manufacturing Corporations Claiming the R&E Tax Credit: Tax Year 2008**

Industry	No. of Returns	R&D Credits Claimed (1,000s)	No. of Returns as Percent of Total	Amount Claimed as Percent of Total
All Industries	5,420	5,758,082	100.0%	100.0%
Computer and electronic product mfg.	1,319	1,812,225	24.3%	31.5%
Chemical mfg.	701	1,489,383	12.9%	25.9%
Transportation equipment mfg.	291	1,180,968	5.4%	20.5%
Machinery mfg.	651	339,851	12.0%	5.9%
Misc. mfg.	575	279,958	10.6%	4.9%
Electrical equipment, appliance and component mfg.	555	217,724	10.2%	3.8%
Petroleum and coal products mfg.	40	99,858	0.7%	1.7%
Food mfg.	163	80,719	3.0%	1.4%
Fabricated metal products mfg.	457	74,863	8.4%	1.3%
Paper mfg.	58	64,226	1.1%	1.1%
Primary metals mfg.	116	32,098	2.1%	0.6%
Plastics and rubber mfg.	202	31,366	3.7%	0.5%
Beverage and tobacco product mfg.	18	12,844	0.3%	0.2%
Nonmetallic mineral product mfg.	70	12,283	1.3%	0.2%
Furniture and related product mfg.	70	11,240	1.3%	0.2%
Textile mills and textile products mfg.	22	5,249	0.4%	0.1%
Wood product mfg.	14	5,016	0.3%	0.1%
Printing and related support activities	38	4,417	0.7%	0.1%
Apparel mfg.	55	2,315	1.0%	0.0%
Leather and allied product mfg.	6	1,478	0.1%	0.0%

Source: Internal Revenue Service at:

<http://www.irs.gov/taxstats/article/0,,id=164402,00.html>