



Research and Development Tax Credit Overview

**Presented by Tri-Merit, LLC
R&D Tax Credit Services**



R & D Tax Credit Presentation

- Presentation of IRS Code Section 41.
 - Credit for increasing research activities.
- Presented by:
 - Tri-Merit, LLC
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About Tri-Merit

- Tri-Merit LLC is a professional services firm specializing in offering Research and Development Tax Credit services.
- We are comprised of CPAs and Engineers.
- We have developed proprietary models for use in qualifying, quantifying, documenting and supporting the R&D Tax Credit claims.
- Our varied experience and proprietary models enable us to professionally, accurately and efficiently perform R&D Tax Credit studies for clients.



Objectives of the Presentation

- Educate your company on the R&D Tax Credit
- Help you to identify which of your employees and their business activities within your company may be eligible for the R&D Tax Credit
- Learn how to leverage the R&D tax credit to put money back in your business



Introduction to the R&D Tax Credit

- Originally established by Congress in 1981
 - Regulations changed 2001 / 2003
 - Documentation requirements relaxed
 - Discovery test removed
 - Currently extended through 2009.
- Intended to encourage U.S. investment in technology and innovation
 - Primarily at Federal level but many states also provide incentives



“4-Part Test” for Qualifying Expenses

1. Permitted Purpose
 - Must be related to the development of a new or improved product or process.
 - Improvements can relate to efforts to reduce costs or to improve quality, performance, reliability, or functionality.
2. Technological in Nature
 - Must be based on the physical sciences such as engineering, metallurgy, material science, chemistry, or computer science.
3. Process of Experimentation
 - Evaluation of design alternatives through the development, refinement and testing of different options.
 - Must include technical risk – chance that the project may not be successful.
4. Elimination of Uncertainty
 - Activities undertaken to discover information and eliminate technical uncertainty – such as what the optimal design should be or what the best method for manufacturing is.



Summary of R&D Credit Activities

- A summary of the R&D tax credit published in April 2008 indicates:
 - 17,700 corporations claimed \$6.6 billion R&D credits on their tax returns in 2005
 - Corporations claiming the R&D credit in 2005 were roughly equally divided into fourths by size, with 29% of firms with \$1 million of assets or less, 25% with assets of \$1–\$5 million, 25% with assets of \$5–\$25 million and 21% with assets of \$25 million or more
 - Firms in all major industries claim the R&D credit, with the principal industries claiming the credit being manufacturing, professional, scientific and technical services and information sectors



Typical Qualifying Activities

- New Product Design
- Building Prototypes
- Testing Prototypes
- Engineering Activities
- Patentable Activities
- Product Improvements / Enhancements
- Drafting / Computer-Aided Drafting (CAD)
- Computer-Aided Engineering (CAE)
- Developing New Manufacturing Processes
- Improving Manufacturing Processes
- Software Development

Projects do **NOT** have to be successful to be qualifying.

Failures show that there is economic risk in the development process (a great fact for the credit).



Description of Qualifying Expenses

Credit based on three areas of Qualifying Expenses

- 1. Salaries and Wages**
 - Based on percentage of time employees are actively working or qualifying activities
- 2. Supply Costs**
 - Materials used during qualifying activities
- 3. Contract Research Expenses**
 - Qualified activities that are outsourced to a third party but conducted for the benefit of the outsourcing company
 - Statutory 65% allocation of qualified costs





Typical R&D In The Casting Process

- Estimating
 - Beginning of manufacturing process development
- Component Design
- Pattern Making, Core Making, Molding
 - Determining manufacturability of the component
 - Gating, venting, risers
 - Try to minimize cores
- Melting and Pouring
 - Fluid life
 - Pouring temperature



Typical R&D In The Casting Process

- Cooling
 - Solidification rate
 - Shrinkage
- Cleaning
 - Slag and dross
 - Minimize clean time
- Finishing
 - Develop heat treatment, machining, surface treatment, etc processes
- Assembly
 - Tool and fixture design used to increase the efficiency of the assembly process



Credit Example

- Credit Activities
 - New product design and improvements
 - Development of manufacturing processes
 - Process improvements
 - Software development
 - Cooling system development
 - Developed manufacturing equipment
 - Design tools and fixtures
 - Redesigned plant floor layout



Credit Example

- Employees Involved
 - CEO
 - President
 - CNC Operators
 - Engineering Manager
 - Design Engineers
 - Machine Mechanics
 - Set-up Technicians
 - EDM Operators
 - Process Engineer
 - QC Personnel
 - IT Manager
 - Mold Makers
 - Tool Makers



Credit Example

Tax Year	Revenue	Federal Tax Credit	State Tax Credit	Total Tax Credit
2004	15,668,585	81,792	3,030	84,822
2005	19,711,855	91,211	8,743	99,954
2006	25,371,951	98,265	10,220	108,485
2007	27,587,892	75,677	16,903	92,580



The Overall R&D Study Process

1. Initial Assessment of your Business
2. Project Kick-Off
 - Initial information collection
 - Preliminary development of analytical models
3. Field Investigation
 - Data analysis and processing
4. Mid-Point Review
 - Development of Deliverables
 - Amended tax returns
 - Summary Report
5. Final Delivery
6. Receipt of Refunds



About Tri-Merit

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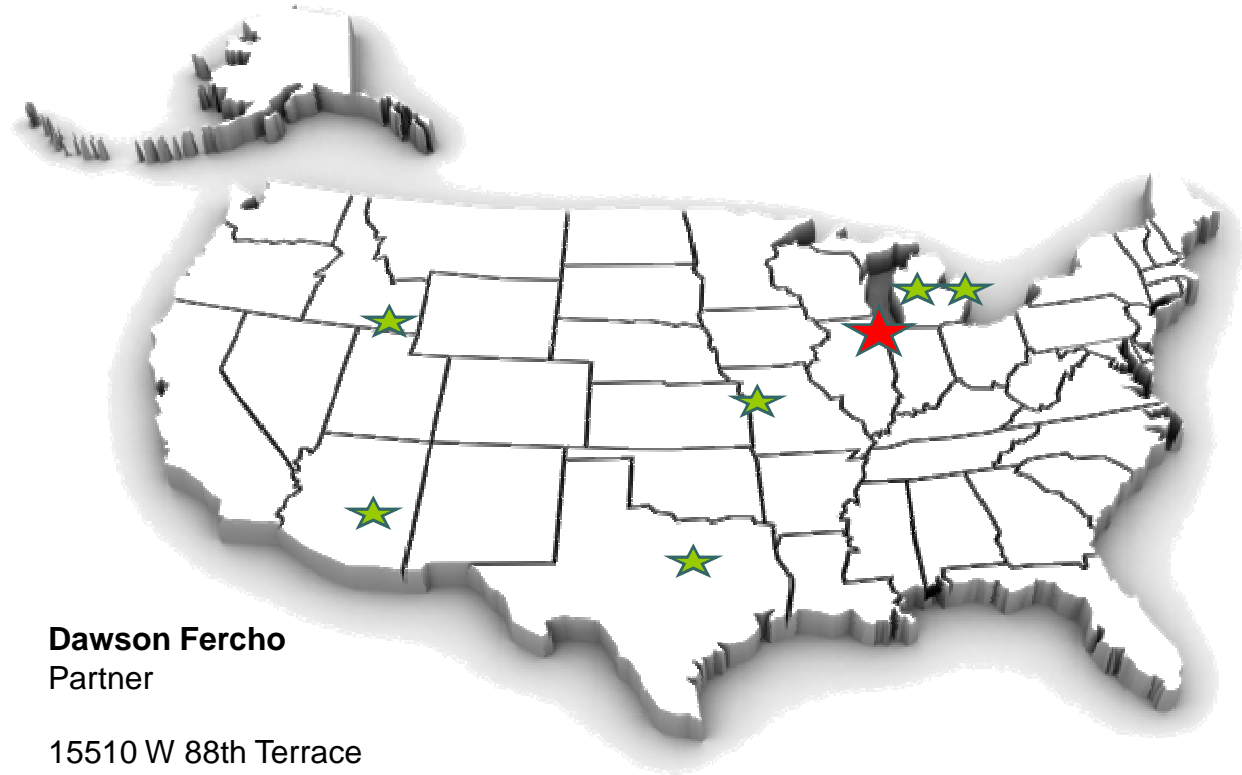
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