

## RESEARCH & DEVELOPMENT TAX CREDIT CASE STUDY: MANUFACTURING INDUSTRY

At Brown Plus, our tax professionals help manufacturers determine their eligibility and maximize their strategy for Research and Development (R&D) Tax Credit benefits.

The R&D Tax Credit rewards companies that pioneer innovation, which allows our society and our economy to flourish. The credit provides a tax break for certain Qualified Research Expenses (QREs) incurred from investing in Qualified Research Activities (QRAs), including wages, supplies and qualified contract expenses.

### THE R&D STUDY PROCESS

- 1 Technical and financial data is obtained regarding the Company's processes and procedures in order to substantiate QRAs and QREs for the tax years included in the report.
- 2 The involvement and contribution of eligible employees towards QRAs is determined, and interviews are conducted with management and employees involved with the research and experimentation process.
- 3 QREs are quantified and funding sources are reviewed to determine the possible impact on R&D tax credits.
- 4 Schedules and supporting documentation are prepared.

### QUALIFYING BUSINESS ACTIVITIES

The manufacturing industry may be exceptionally well-positioned to qualify for the credit by:

-  Developing new or improved quality assurance testing processes to increase product reliability or overall performance.
-  Building and testing first article prototypes.
-  Designing custom tools and fixtures.
-  Converting a manual process into an automated one.
-  Improving the durability, strength and/or service life of a part, while still ensuring its quality and integrity.

## MANUFACTURING COMPANY R&D CASE STUDY

Manufacturing Company A engaged Brown Plus to conduct an R&D Tax Credit Study. QRAs and QREs for this study were identified and Brown Plus documented the activities of each department where QRAs were undertaken.

Company A's qualifying activities included improving their manufacturing process by hiring a contractor to design, build and install guards on their recutters and conveyors used in their production lines. These guards reduced and prevented injuries by blocking hazardous areas and reduced downtime. To increase productivity, Company A also initiated a project to replace its manual packaging with a flexible, automated packaging line. This included process flow analysis, efficiency studies and equipment selection and testing.

The activities were analyzed to determine their eligibility under IRC Section 41 and a sampling of projects was reviewed to support the departmental QRAs. The final step was to organize the completed documentation and other supporting materials into a study. This study serves as the main source of information for the examiner to determine whether these activities and projects satisfied the IRC Section 31 criteria.

The breakout of the (QREs) is summarized below:

### QUALIFIED RESEARCH EXPENSES

	Federal	Pennsylvania
Qualified Wages	\$748,663	\$748,663
Qualified Supplies	\$-	\$-
Qualified Contract Expenses	\$278,948	\$182,503
Total QREs	\$1,027,611	\$931,166

### R&D TAX CREDITS RECEIVED

Federal	\$89,550	
Pennsylvania	\$24,358	

**TOTAL R&D TAX CREDITS RECEIVED: \$113,908**

## BROWN PLUS R&D TEAM



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