**Research and Development Tax Credits –**

**An Untapped Opportunity in the Graphic Arts Industry**

The research and development (R&D) tax credit is a permanent fixture in the tax code. Some estimates put the amount of credit claimed at over $13 billion annually. This credit was established by congress to encourage business innovation, process improvement and technological advancement to help keep the United States competitive in the world market place. National data shows that manufacturers, including the graphic arts industry, are the top segment claiming these tax credits. This is by far the largest federal tax credit available and most states now have similar tax credits as well.

In spite of the encouraging news about the magnitude and benefits of this credit, we find that claiming the R&D tax credit is an often underutilized tax savings strategy in the graphic arts industry. Studies have shown that most manufacturers (including many printers) across the country are missing out on this cash saving opportunity. Only one out of twenty small and medium sized companies eligible for this credit are actually taking advantage of it. Additionally, for those who are claiming the credit, those same studies show that the credits claimed are often significantly under reported. Our experience with our printing clients is consistent with the findings of these studies. Simply put, printers are underutilizing this fantastic tax and cash savings opportunity. Yet, if your company is innovative and creative in solving customer issues and you are involved in process improvement within your organization, chances are your activities qualify you for the credit.

Do You Qualify?

Regardless of industry niche, size, or revenue any company that performs activities that meet the following four definitional areas can qualify for the credit.

* Qualified Purpose

You must demonstrate that your activities create a new or improved product or an improved process that results in increased performance, function, reliability or quality. Most (if not all) of our printing clients define their place in the marketplace around the attributes of innovation, quality and provides technological solutions to customer needs. These all fit within the criteria of this definition requirement. If you aren’t claiming the credit because you don’t think your activities qualify, you may want to take another look.

* Technological in Nature

The qualifying activities must rely on hard sciences such as chemistry, engineering, physics and computer science. Many printers think they don’t qualify because they aren’t building rocket ships. However, take a walk through any printing plant and you’ll see the “hard” sciences in action. The industry is a constant state of technological advancement and as such this defining requirement is usually easily met.

* Process of Experimentation

The qualifying activities are supposed to demonstrate that a process of experimentation was undertaken to achieve a desired outcome. Printers often review and debate alternative methods for achieving a desired outcome with their customers. That experimentation can qualify your activity for R&D purposes.

* Technical Uncertainty

The activity must demonstrate a certain level of technological uncertainty about development of a product, a new process improvement or in meeting a customers demands. We find printers often denying they can overcome this requirement because they are so good at what they do. They know they will find a way to overcome challenges so they don’t view their activities as “uncertain”. Don’t confuse this confidence in ultimately finding a solution as the reason you don’t qualify for the credits. The momentary uncertainty of knowing your path forward is often enough to demonstrate the surety of the correct path forward.

What is the Credit?

The credit is calculated as a percentage of the select costs for your qualified activities. Primary costs that qualify include:

* Direct wages of those involved in R&D activities
* Supervising wages related to R&D activities
* Supply/Material costs
* Qualified contracted research costs

The actual calculation of the credit is fairly complex but if you qualify – the credits can bring significant tax savings. One researcher noted that large companies (those with sales in excess of $250 billion in gross sales) are averaging tax credits as much as 2% of aggregate gross sales volume.

Next Steps

Given the nature, a creative service offered by the graphic arts industry and knowing the ins and outs of the R&D tax credit makes it clear that this opportunity should be reviewed for most printers. Bringing that understanding together can help you maximize this tax savings opportunity and those saving could be significant.

If you think you may qualify for the R&D tax credit be sure to talk to your professional advisor and/or tax preparer. Alternatively, don’t hesitate to give us a call for a free consultation on this matter.