



ROMO INCENTIVES GROUP

# **Federal & State Tax Credits & Incentives**

**Presented by:**

# **Romo Incentives Group**

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# Program Outline

- Introduction to Romo Incentives Group (RIG)
- Research & Development (R&D) Tax Credit
- Work Opportunity Tax Credit (WOTC)
- Employment Training Panel (ETP)



# Romo Incentives Group

- **Our experienced specialists** include former members of: IRS, FTB, KPMG, Deloitte, E&Y, and PWC.
- **Specialty consulting services complement** your existing CPA services; RIG is a tax incentive consulting firm focused on maximizing tax credit benefits.



- **Expertise** in all industries:  
*Agriculture, Manufacturing, Retail, Food and Beverage Processing, Finance, Healthcare, Hospitality, Publishing, Transportation, Engineering, Software Development, and High Tech*
- **No upfront fees** or risk for engaging our services. **Nothing is paid** until a tax credit is generated.
- **Audit support** is included in all contingency fee contracts.
- **Benefits:** Reduce or eliminate Federal and State Income Tax.

**RIG**

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# Research & Development Tax Credit

- Introduction
- History of the R&D Credit
- Why Perform an R&D Study?
- What is *Qualified Research*?
- Which industries perform *Qualified Research*?
- Who performs *Qualified Research*?
- Qualified Research Expenditures – “QREs”
- Calculating the R&D Credit
- R&D Study Methodologies
- Common Audit Issues
- Stages of an R&D Study

# R&D Tax Credit - History

- **Introduced in 1981**

- Economic Recovery Act
- Credit has been extended 16 times
- Extended through December 31, 2014 (currently pending renewal)
- No longer IRS Tier 1 Issue as of August 2012



- **2004 Regulations**

- Elimination of “Discovery Test”
- Introduction of Process Improvements
- Expanded definition of qualifying employees



# Why Perform an R&D Study

- R&D credits may result in immediate cash and significantly reduce current and future federal and state tax liabilities.
- The R&D tax credit is a **dollar-for-dollar credit** against taxes owed or taxes paid.
- Credits may be claimed for all open tax years.
- Credits generated in additional years may be available if taxpayer is in a net operating loss or alternative minimum tax position.
- Carryforwards may be calculated for earlier years and used if eligibility requirements are met.
- Recent legislation favors taxpayers:
  - Elimination of Tier 1 status
  - Potential permanence of the credit
- More than \$7.5 billion in federal R&D tax credit benefits are given out annually.
- Every successful company is potentially eligible for an R&D tax credit of some amount – this can be in ANY industry.



# What is *Qualified Research*?

## The Four-Part Test



# Four-Part Test

<u>Technological in Nature</u>	<u>Permitted Purpose</u>	<u>Elimination of Uncertainty</u>	<u>Process of Experimentation</u>
<p>The activity must fundamentally rely on principles of:</p> <ul style="list-style-type: none"><li>• Engineering</li><li>• Physical Science</li><li>• Computer Science</li><li>• Chemistry</li><li>• Biology</li><li>• Mathematics</li><li>• Physics</li><li>• Agronomy</li><li>• Viticulture</li></ul>	<p>A business component is a product, process, software, technique, formula, or invention. The activity must be undertaken to develop a new or improved business component with regard to:</p> <ul style="list-style-type: none"><li>• Function</li><li>• Performance</li><li>• Reliability</li><li>• Quality</li></ul>	<p>Activity must be undertaken to discover information related to uncertainties regarding the capability or method for developing or improving a product or process. Uncertainty may exist as to capability, methodology or design:</p> <ul style="list-style-type: none"><li>• Is it possible to develop the business component?</li><li>• What is the optimal design of the product or process?</li><li>• What is the best way to achieve the desired results?</li></ul>	<p>Must evaluate one or more alternatives in an attempt to overcome uncertainties. Examples of activities:</p> <ul style="list-style-type: none"><li>• Trial and Error</li><li>• Design of Experiments</li><li>• Computer Modeling</li><li>• Use Case Testing</li><li>• Simulations</li><li>• Testing Mockups</li><li>• Bench Testing</li></ul>

# Examples of *Qualified Research*



- Conceptualizing, developing, designing, engineering new or improved business components
- Testing and evaluation of new/improved products or processes
- Experimenting with new growing or harvesting techniques
- Design and engineering efforts involving uncertainty and testing
- Formula development
- Prototype development
- Software development
- Computer modeling – CAD, BIM
- Patent development
- Qualification testing

# What Activities Do Not Qualify?



- Activities conducted outside of the U.S. or U.S. Territories
- Routine quality control
- Post-production activities
- Market or consumer research
- Travel time
- Training or administrative duties
- Non-technical managerial functions
- Marketing efforts during product release
- Any activities that do not meet the Four-Part Test

# Where is *Qualified Research* Performed?

- Manufacturing
- Tool & Die
- Pharmaceuticals
- Medical Devices
- Chemical Companies
- Software
- Biotech
- Aerospace
- Automobile
- Food Processing
- Agribusiness
- Winemaking
- Waste Management
- Architectural Firms
- Engineering Firms
- Cosmetics
- Consumer Electronics
- Green Technology

# Wine Industry: Qualifying Activities

## Development of and Experimentation with:

### Cultivation Techniques

- Improving clone quality and consistency
- Optimization of growing medium, soil and rootstock
- Optimization of nutrient, water and solar intake
- Experimentation with alternative irrigation and filtration techniques
- Reducing instances of mold, bacteria and pests
- Optimization of grape brix levels, tannins, acids

### Harvesting Methods

- Exploration of new or improved harvest techniques
- Incorporating automated processes & equipment
- Ripeness testing, brix testing
- Prevention of premature oxidization
- Optimizing cluster selection, minimizing bunch rot
- Alternative crop waste treatments



# Wine Industry: Qualifying Activities Cont'd

## Development of and Experimentation with:

### Process optimization: crushing, pressing, fermentation, blending

- Optimal tannin extraction
- Optimizing protein production and pH of grapes
- Experimentation with methods to maximize shelf life and achieve microbial stability
- Batch optimization – balancing acidity and tannins
- Optimization of pressing parameters
- Experimentation with new or improved blending and clarifying techniques
- Evaluating alternative mixing methodologies



# Wine Industry: Qualifying Activities Cont'd

## Development of and Experimentation with: Bottling and Packaging

- Alternative packaging materials
- Bulk wine production techniques
- Development of new or improved preservation methods
- Quality testing to evaluate shelf life and packaging performance
- Contamination prevention
- Process automation, inventory tracking, sorting
- Novel packaging capabilities: bulk wine, wine kits
- Experimentation with alternative storage techniques to optimize shelf life
- Design of new or improved production or distribution facilities
- Redesign/improvement of existing facilities
- Processes improvements to meet changing regulatory requirements and quality standards





# Agriculture: Qualifying Activities

## Development of and Experimentation with:

- Novel cultivation techniques
- New/improved irrigation and fertilization methods
- Hybrid crops and gene transfer technologies
- Harvest cycle times
- New/improved breeding techniques
- Growing processes for new strains of crops
- Process development incorporating novel fertilizers/pesticides
- Innovative methods of crop protection from disease/pests
- Bio-security practices (facility cleaning and disinfection)
- Automated processes and equipment
- Alternative treatment and management of farm waste





# Manufacturing: Qualifying Activities

- Developing processes to create new or improved products
- Manufacturing process improvement
- Performing tests and evaluations to discover the most efficient flow of raw materials
- Improving product quality and yields
- Reducing manufacturing times
- Developing or redesigning processes to meet increasing regulatory requirements
- Achieving compliance with changing emissions laws and regulations
- Developing and implementing new/improved safety technologies or processes
- Implementing new production standards & quality assurance processes



# Engineering: Qualifying Activities

- Attempts to develop new or improved product designs
- Experimentation with alternative structural designs/materials
- Design and testing of new processes
- Attempts to improve process efficiencies
- Integration of waste disposal methods into processes and structures
- Developing innovative designs for bridges and roadway structures
- Development/design of multiple co-dependent features where technical uncertainty may only be eliminated by designing related components
- Environmental design
- Sustainable design
- Design testing



# Process Improvements

## Qualifying Activities:

- Design of new manufacturing facilities
- Redesign/improvement of existing manufacturing facilities
- New LEED initiatives
- New LEAN initiatives
- Environmental initiatives



- *Improved irrigation systems*
- *Renewable sources: Solar/Wind/Geothermal*
- *Achieving compliance with changing emissions laws*
- *Process efficiencies*



- Discovery of tooling and machinery needed to support improved processes
- Design and evaluation of various process alternatives

# Who Performs *Qualified Research*?

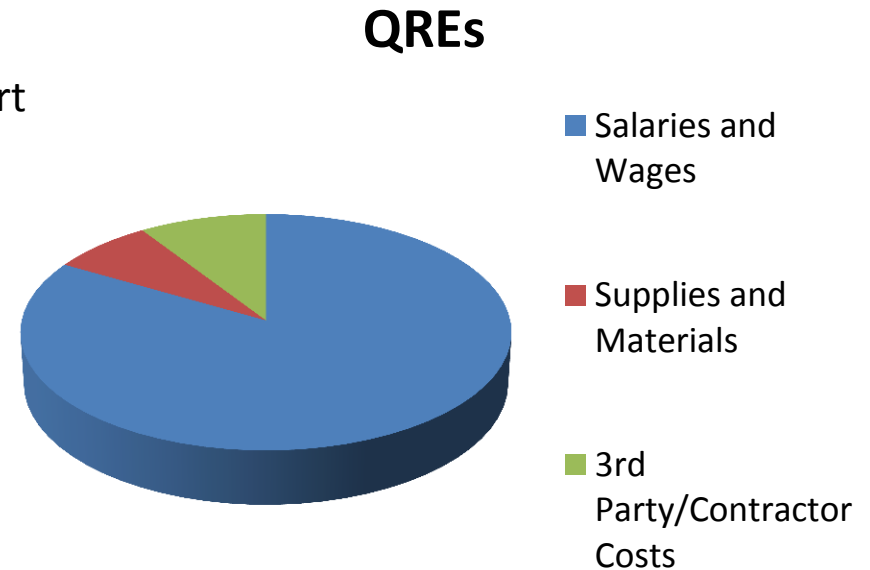
- Agronomists/Growers
- Engineers
- Architects
- Research Scientists
- Biologists
- Chemists
- Lab Technicians
- Software Engineers
- CAD Designers
- Toolmakers
- Food Scientists
- Wine Makers and Brewers

## *Three Qualifying Roles:*

- *Conduct of research*
- *Supervision of research*
- *Support of research*

# Qualified Research Expenditures (QREs)

- **Salaries & Wages**
  - Typically largest component of QREs
  - Direct research, supervision or support
  - Multiply percentage allocation by employee's annual taxable wages
  - **80% sub all rule**
- **Supplies & Materials**
  - Tangible, non-depreciable property used during the conduct of qualifying activities
- **Third Party & Contractor Costs**
  - Additional rules and restrictions apply – rights and risk
  - 65% of qualifying costs



# Calculating the R&D Credit

- QRE accumulation
- Base Period calculation
  - Traditional Base Period vs. Alternative Simplified Credit (ASC)
  - Start-up rules, determination of fixed base percentage for 11<sup>th</sup> and subsequent years
- Computation of incremental credit
  - Credit for tax year is generated by the amount of increase in qualifying research activities as compared with the Base Period
- Application of credit rate – 20% Federal, 15% California
- Section 280C(c) – reduced credit
- Federal credit is equal to roughly 6.5% of QRE
- California credit is equal to roughly 6.5% of QRE
- Carry forwards
  - Federal – 20 years
  - California – indefinite

# R&D Study Methodologies

- **Designing a roadmap to tell the taxpayer's story**
  - Success under audit will depend on the strength of the study methodology and compliance with IRC Section 41
  - Audit Technique Guidelines – industry specific
  - Project Accounting System
  - Acceptable methodologies – time surveys
  - Nexus of QREs to specific business components/projects
  - Legal precedents – important court cases
    - *Union Carbide, T.G. Missouri, etc.*
  - Understanding the taxpayer's tax situation and organizational structure from the start of the engagement
  - Documentation – what to include/not include
  - The R&D study should answer auditors' questions before they are asked

# Stages of an R&D Study



- Phase I – Feasibility Analysis/Scoping
- Phase II – Implementation
  - Qualify projects
  - Quantify costs
  - Document activities
  - Perform calculations
- Phase III – Delivery
  - Technical report
  - Amend tax returns
- Phase IV – Audit Support



# Work Opportunity Tax Credit

**Federal Tax Incentive** program, available to all U.S. businesses, with two purposes:

- Promote the hiring of individuals who qualify as a member of a targeted demographic group, and
- Provide a federal tax credit to employers who hire these individuals

The credit per qualified employee can equal:

- \$9,600 for disabled, long-term unemployed veterans
- \$9,000 for long-term TANF recipients
- \$5,600 for long-term unemployed veterans
- \$4,800 for disabled veterans (discharged within one year of hire date)
- \$2,400 for all other groups

# WOTC Eligibility

Apply for certification within 28 days of the employee's hire date and meet **one** of the eligibility criteria including, but not limited to, the following:

- Temporary Assistance for Needy Families (TANF) recipient
- Supplemental Nutrition Assistance Program (SNAP) recipient
- Supplemental Security Income (SSI) recipient
- Qualified Disabled and/or Unemployed Veteran
- Qualified Ex-Felon
- Designated Community Resident
- Vocational Rehabilitation Referral - Services from a State-certified agency, an Employment Network under the Ticket to Work program

# WOTC Process



- **Capturing Information**

-- At time of hire, employees should:

- Complete the WOTC forms provided by RIG (Questionnaire and Form 8850) -- RIG has proprietary questionnaire similar to 8850 with much better qualification rate
- WOTC forms should be completed at the same time new hires are completing all of their other new hire paperwork (I-9s, W-4s, etc.)
- Return all of their new hire paperwork to their HR Administrator (or whoever handles the company's new hire paperwork)

-- HR (or handler of new hire paperwork) should then:

- Complete bottom portion of WOTC New Hire Questionnaire (page one of packet) – where it says “For Human Resources Use Only”
- Return completed WOTC forms to RIG’s Processing Center within two weeks of Hire Date – completed forms can be emailed, faxed, or mailed

# Employment Training Panel Overview



- The Employment Training Panel (“ETP”) provides funding to employers to assist in upgrading the skills of their workers through training that leads to good paying long-term jobs
- Established in 1982, the ETP is the state's premier program supporting job creation and retention, through training
- The ETP has served over 80,000 California companies and issued over \$1.2 billion in training funds
- The ETP Program is funded by employers through a special payroll tax and differs from other workforce development organizations whose emphasis is on pre-employment training
- Businesses determine their own training needs, develop action plans, and are involved in all aspects of the training

# Which Employers Qualify for ETP Grants?

- Under its core program, ETP can only fund training for employers that are subject to the Unemployment Insurance Tax and have a California Employer Account Number (CEAN) with a prefix of 699 or lower.
- Employers should be for-profit, face out-of-state competition, and have a turnover rate of less than 20%
- Priority industries (receiving higher per training hour grants) include manufacturing, biotech/life science, IT services, media/entertainment, goods movement and transportation logistics, agriculture, healthcare, construction, and green technologies.
- For employers who may not meet the above requirements Special Employment Training (“SET”) projects may be available. SET’s are designed to improve skills and employment security of frontline workers in projects that do not meet standard employer or trainee eligibility requirements, but are a priority for workforce training.

# Approved Training Types & Methods

- Examples of training types funded include computer skills, manufacturing skills, management skills, commercial skills, advanced technology, customer service, and English as a second language training.
- Training may be provided in-house or by a training vendor.
- Training can be conducted via the following methods:
  - Classroom
  - Non-productive Laboratory
  - Productive Laboratory
  - Video Conferencing
  - Computer Based Training

# Funding Amounts & Requirements

- Reimbursement rate of \$15 - \$26 per hour for each training hour (\$8/hr. for all computer based training).
- Single employer small business (under 100 employees in CA) training hours range from 8 - 60 hours per employee and total funding is capped at \$50,000.
- Single employer agreement training hours range from 24 - 200 hours per employee and total funding is capped at \$750,000.
- ETP will reimburse employer only for training hours completed after Panel approval is received.
- Trainer to trainee ratios range from 1:10 for advanced technology training, 1:15 for new hires, and 1:20 for retrainees.
- For full reimbursement each employee must meet the 90-day retention period.
- Eligible employees must meet ETP minimum retention rates after retention period (Stanislaus County: New Hire Rate = \$9.25, Retrainee Rate = \$11.30).

# Stages of Obtaining ETP Grants



- Registration: A simple online registration must first be completed.
- Orientation: Employer then must view brief online orientation.
- Preliminary Application: High-level online application used to determine basic eligibility.
- Regional Office Visit: If approved for basic eligibility an ETP Analyst will schedule a site visit at employer's facility to discuss contract requirements.
- Application for Funding: Work with ETP Analyst to complete the Application for Funding and agree on terms and conditions.
- Panel Approval: All training proposals will be reviewed by the Panel. Depending on the amount of the request a representative from the employer may be required to be present at the Panel review meeting.
- Funded Training Begins: You will be "officially" notified that you may begin training after the Panel approves your training proposal.



# How Can RIG Assist?



- RIG will develop the ETP training proposal which includes, but is not limited to; request for eligibility, negotiation of funding amounts, submission of agreements, arranging and attending all site visits, development and submission of all required documentation, addressing any agreement revisions with ETP staff, and attendance of Panel review meeting, if necessary.
- RIG will actively manage the required contract administration which includes, but is not limited to; set-up, maintenance, and review of all daily training forms, employer data set-up within ETP software, reporting of all training activities and roster modifications, and all accounting functions.
- RIG will also provide a dedicated Account Manager who will maintain constant contact with the ETP staff to ensure compliance as well as provide information and any project support as requested by the employer.
- Additionally RIG provides audit services at no cost to the employer.

# Why work with Romo Incentives Group (RIG)?



- RIG provides tax credit services to businesses of all sizes, from Fortune 500 companies to operations with fewer than 10 employees.
- RIG works with you to plan an efficient, non-invasive study that addresses all IRS and FTB requirements head-on.
- RIG employs R&D specialists with extensive industry experience, in addition to former IRS and FTB auditors.
- RIG conducts an assessment of benefits at no cost. Fees are contingent upon credits identified.
- Unlike its competitors, RIG includes audit support in every contingency contract as a “warranty” of our exceptional services.