

IRC §41 Research Tax Credit Opportunity

presented by
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&
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Our Objective Today

- To familiarize you with the Research & Development (R&D) tax credit, IRC §41
- To define the type of activities that corrugated processors engage in that may qualify for the R&D tax credit
- To explain what is necessary to substantiate §41 tax credit claims
- Discuss how recent court cases, including *TG Missouri Corporation v. Commissioner*, may be applicable to your research credit claim

Key Points about the R&E Tax Credit

- The R&D tax credit is governed by IRC §41
- The R&E tax credit is a wage-based credit and is based upon qualified research activities
- The changes made by T.D. 9104 (issued on December 30, 2003) are effective for ALL tax years
- Refunds received from the IRS are tax-free
- The credit is filed on Form 6765
- More than 30 states have a similar program

Internal Revenue Code § 41 Defined

Qualified Research Activities

- The Development or Improvement of Business Components

- A Business Component is any:
 - Product
 - Process
 - Technique
 - Formula
 - Invention
 - Software Application

Qualified Research Activities, cont'd.

- Technological Criteria:
 - Process of Experimentation must fundamentally rely on principles of science including:
 - Mechanical
 - Biological
 - Engineering
 - Chemical or
 - Computer sciences

Qualified Research Activities, cont'd.

- Elimination of Uncertainty:
 - Information sought must be intended to eliminate uncertainty
 - Uncertainty exists if, at the outset, the available information does not establish the taxpayer's capability, method or design of the business component

Qualified Research Activities, cont'd.

- Process of experimentation:
 - Experimentation is the evaluation of multiple alternatives, including developing and testing hypotheses – *including systematic trial and error*
 - Experimentation goes beyond “lab work” – It includes both conference room and shop floor experimentation time
 - Research must substantially relate to new or improved function, performance, reliability, or quality
 - Research need NOT be successful to qualify, i.e. qualified work done to eliminate uncertainty that does not result in sales IS applicable !!

Qualified Research Expenditures

- Qualified Wages of Employees
 - ***Performing*** qualified activities
 - ***Supervising*** qualified activities
 - ***Supporting*** qualified activities
- Supplies used in the conduct of research
- Contract Research

Examples of Qualifying Activities

- **Design** new packaging or floor displays to meet customer specifications
- **Design** manufacturing processes for each new package
- **Make** prototypes or sample items to test tooling or process or design
- **Participate** in or **Supervise** design review meetings
- **Evaluate** Engineering Change Notices (ECNs)
- **Experiment** with different materials, fluting or weight of corrugation
- **Perform** first article inspection or qualification of prototypes
- **Improve** manufacturing processes
- **Streamline** or improve production and manufacturing processes to achieve higher standards in productivity

Examples of Qualifying Activities, cont'd.

- **Simulate** manufacturing processes prior to commercial productions to achieve highest performance
- **Invent** new processes
- **Apply** for patents on products or processes
- **Design** and develop prototype tooling, jigs, or dies
- **Engage** an outside firm to conduct research on an outsourced basis:
 - Process analysis
 - Optimization of processes
 - Identification and implementation of lean principles

Substantiating Research Credit Claims

- Project accounting
 - Reporting time by employee by project
 - Use existing documentation to allocate / substantiate qualified activity

- Nexus between employees and activities
 - Time records, employees schedules, drawings or calendars

- Retaining qualitative support of research efforts
 - Drawing iterations of products or tooling
 - Alternatives considered

- Development of procedures that build upon existing documentation procedures

About Mueller Prost, P.C.'s Tax Credit Group

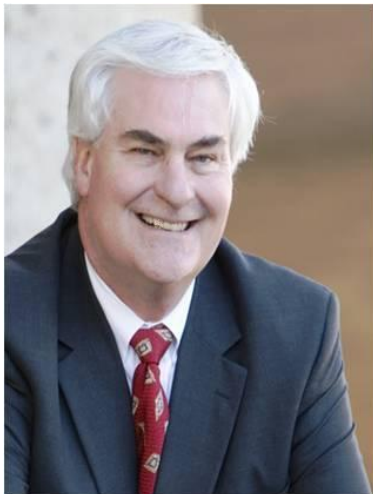
- Our group specializes in IRC § 41 exclusively and relies on these regulations as the basis for your tax credit results
- We work with you and your existing procedures
- Our team members' professional backgrounds consist of tax, financial, operational and engineering; we know how to ask the right questions, and understand your business
- We have streamlined our own process to provide the highest quality service, with the least interruption to your operations, while maximizing the credit amount
- We are backed by our solid reputation as a CPA and business advisory firm that has been in operation since 1983

Opportunities

- **Current Year Study.** Mueller Prost PC will assist in calculating and gathering all supporting documentation for credit to be claimed on 2008 or 2009 Federal and State Income and Franchise Tax Returns.
- **Credit and/or Refund Claims.** Mueller Prost PC will assist in calculating and gathering all supporting documentation for unclaimed credit in prior tax years. This information is utilized to file amended tax returns increasing general business credit carryforwards and/or applying for refunds.
- **R&E Credit Review of Subsidiaries acquired through the purchase of stock.** Mueller Prost PC will review prior year Federal and State income tax returns to determine whether it is advantageous to file for refund claims or identify general business credits to be carried forward that exceed the limitations imposed in IRC §383.
- **Risk Assessment & FIN 48 Analysis.** Mueller Prost PC will review previously claimed research credit documentation and advise on its sustainability upon audit by the IRS or state taxing authorities.

Questions?

About the Speaker



As a licensed Professional Engineer, Steve George brings more than 25 years of chemical process industry leadership to help manufacturing companies of all types take advantage of their well-earned research and experimentation tax credits. Having lived the fact that American innovation occurs in every facet of an operation—from the shop floor to the Board Room—he is uniquely positioned to help clients identify qualified research activities. His first-hand experience with \$100 million plus mergers and acquisitions from both sides of the table is an invaluable asset in effectively describing manufacturing processes.

His company was a pioneer in the ISO 9000 certification of process industries. The documentation process required for ISO is directly related to R&E documentation.

Steve's accomplishments include designing customer-specific, integrated reporting mechanisms to capture research and experimentation qualified activities, supply costs and contract research. In addition, he has also designed, built and commissioned chemical processing plants in Mexico, Europe and China. Steve is Black belt and six sigma certified, and an instructor for General Electric's *Excellence Through Quality* training program. He is an industry member for the establishment of St. Louis' air pollution compliance for paint and allied industries, as well an industry member of OSHA's negotiated rule making effort for Methylenedianiline.

Steve is a graduate of Georgia Tech with a B.S. in Chemical Engineering.

Thank You!