8 Myths That Keep Electrical Contractors From Claiming the R&D Tax Credit

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- Attend 90% of this presentation
- Fill out the online evaluation for this session
Myth #1

Contractors do NOT qualify.

Qualifying Industries ï AEC

<table>
<thead>
<tr>
<th>Contractors</th>
<th>Design Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Å Electrical</td>
<td>Å Architectural</td>
</tr>
<tr>
<td>Å Mechanical</td>
<td>Å Engineering</td>
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<tr>
<td>Å Building automation</td>
<td>Å Civil</td>
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<tr>
<td>Å Data center/fire protection</td>
<td>Å Mechanical / Electrical</td>
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<tr>
<td>Å Solar</td>
<td>Å Environmental</td>
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<tr>
<td>Å General contractors</td>
<td>Å Structural</td>
</tr>
<tr>
<td>Å Industrial design</td>
<td></td>
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</tbody>
</table>
Qualified Research Expenditures (QREs)

<table>
<thead>
<tr>
<th>WAGES</th>
<th>SUPPLIES</th>
<th>65% OF CONTRACT RESEARCH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Form W-2, Partnership Earnings subject to SE Tax, Schedule C</td>
<td>Cost to fabricate prototypes/items consumed in R&amp;D process</td>
<td>Fees paid to outside consultants/subcontractors/engineers/software developers</td>
</tr>
</tbody>
</table>

Excludes 401(k) & benefits

R&D Wage Distribution for Contractors

Highest number of qualifying wages

Lowest number of qualifying wages
Myth # 2

Only Scientists in White Lab Coats Qualify.

R&D Background Discussion

Introduction of the R&D Tax Credit:

Qualified Research Activities (QRAs)
1. Discovery Test - New to the World Requirement
2. Contemporaneous Record-Keeping
Qualifying Activities - Examples

- Evaluation of alternative means and methods as well as construction techniques
- Structure and facility plans for constructability
- Construction equipment development and improvement
- Integrating LEED and sustainable initiatives
- HVAC and electrical system coordination
- Building Information Modeling (BIM) for sub-system coordination
- Analysis of the functions of a design directed at improving performance, reliability, quality, safety and/or life cycle costs
- Proposing solutions in requests for information
Myth # 3

Claiming the credit is not worth the time.

Example

- Electrical Contractor in the Midwest
  - C corporation
  - Annual sales: $32MM
  - Annual payroll: $18MM

- Results (2011-2014):
  - $550,000 in federal and state R&D tax credits
Myth # 4

If I claim the credit I will be audited.

A surprising statistic…

5%
Myth # 5
I need time sheets to document/substantiate my claim.

Myth # 6
I can’t claim the credit because I am already paid by the government for my work.
Myth # 7

Only design-build contracts are eligible.

TRADITIONAL DEFINITION = Discovery Test

TAX DEFINITION = 4 Main Requirements
- New or Improved Business Component
- Technological in Nature
- Elimination of Uncertainty
- Process of Experimentation
Myth # 8

ALL contractors qualify.

Utilization

- Losses/NOLs
- AMT
- Passive ownership
- ESOP
- Trusts
- 41(g)
- Statutory deadline considerations
- Controlled groups
Thank You!

Questions?

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Don’t Forgeté  
Â 10:15-11:30 am Opening General Session  
Â 11:30 am-5:00 pm NECA Show