Calvetti Ferguson

R&D TAX CREDIT CASE STUDY: MANUFACTURING

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In 2019, Calvetti Ferguson completed a 2015-2018 R&D tax credit study for a trailer manufacturing corporation. The Company averaged $45M in gross receipts and $9M in payroll across the study years. The Company hired CF to conduct an R&D study because they knew the value the study could bring the Company and trusted the expertise that CF could provide.

Initially, CF approached the manufacturing firm to see if they would be interested in pursuing an R&D study to reduce their tax liability for the 2018 tax year. The Company did not pursue this credit previously because they believed they were too small to qualify for the R&D tax credits which is a common misconception for companies in the manufacturing industry. They also believed these credits were only for companies with dedicated R&D staff such as technology or pharmaceutical however, this too is not the case.

After other tax incentives were reviewed and discussed, the R&D tax credits were revealed to be the best fit. This was determined during the complimentary evaluation in which preliminary information is gathered and discussed with the client. This information helps verify if the Company is eligible for the tax credit and to what level. Additionally, this helps to find out if the Company can benefit from the credit, and if so, how much tax can be offset by an R&D credit.

This client is like many others in the sense that they are unsure they would qualify because there is this misconception that R&D tax credits are just for large companies with dedicated R&D teams. However, during our complimentary evaluation, it became very clear that they would not only qualify but benefit substantially from these tax incentives. In the end, we were happy and so was the client.

The CF Tax Incentives team discussed the Company's operations to evaluate which activities satisfied the IRS definition of qualified research. From these conversations, CF calculated that the Company had approximately $4,000,000 in qualified wages associated with a wide variety of qualified activities. These qualified activities included, but were not limited to:

- Development of manufacturing processes associated with new product fabrication and assembly
- Adjustments to current manufacturing lines to improve manufacturing performance (speed, precision, labor required, etc.)
- Purchase of new equipment to add new functionality or improve existing lines
- Design and development of molds, dies, jigs, and fixtures for prototype and production
- Automation of equipment to improve efficiency, improve quality, and/or improve safety
- Building expansions to increase capacity or add new capabilities
- In-house tool and fixture design and development (non-project specific tooling, rack, equipment development to improve the functionality of warehouse or manufacturing space)
- Adjustment of the manufacturing process to reduce labor costs/ manufacturing time
- Development of process improvements to improve manufacturing quality

As a result of the R&D study through Calvetti Ferguson, the Company saved nearly $245,000 in federal income tax and $125,000 in Texas franchise tax. Working closely with the Company's CPAs, our R&D tax consultants assisted the client in identifying and capturing R&D tax credits that drastically reduced their tax liability.