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## Utilizing Tax Credits & Incentives to Increase Profitability

By Stacy Deru and Steve Adams

Most businesses hire a CPA to compile and file their tax returns based on quarterly and yearly deadlines. These often involve writing a hefty check to the IRS. While we at Engineered Tax Services believe everyone should pay their fair share, we also live by ~ “there is no need to leave a tip”.

There are many incentives and credits businesses are not taking advantage of. Less than one-third of businesses who are eligible know they are. This is where a good tax strategist can identify incentives and partner with your CPA to take advantage. Below, four commonly overlooked tax strategies A/E firms and their clients should be utilizing to maximize profitability.

### R&D Tax Credits

R&D credits can exceed 10% of eligible costs related to developing new products, processes, or inventions. Over 40 states in the U.S. also have R&D credits that can be stacked with the federal. These credits amount to substantial savings year over year and can be utilized by start-ups.

Many A/E firms don't know they're eligible for R&D tax credits. Credits are intended to stimulate innovation, technical design and product develop, keeping the U.S. a leader in innovation. Many qualifying activities seem like day-to-day operations for an architect or engineer, yet meet the qualifying standards for R&D. The four-part test for R&D is:

- **Permitted Purpose/Business Component** – The activities must relate to new or improved business components, function, performance, reliability, and quality. The innovation doesn't need to be new to the A/E industry, just new to the firm's process and procedures.
- **Technological in Nature** - The activity must fundamentally rely on the principles of physical or biological science, engineering, or computer science.
- **Elimination of Uncertainty** - There needs to be some uncertainty at the onset when the company is trying to develop a new or improved business component.
- **Process of Experimentation** – The company needs to evaluate different scenarios when trying to solve the problem and develop the new component. The key here is multiple iterations.

These credits can provide significant tax savings to A/E firms, allowing them to add employees, inject cash into expansion and combat rising costs, such as supplies and insurance. Here is a [case study](#) demonstrating how an engineering firm in New York was able to realize over \$1M in first year savings. [Learn more here.](#)

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## Energy Incentives

There are several credits and incentives available to owners and developers meeting energy efficient qualifications. The 179D deduction can impact A/E firms directly. Entities that cannot claim the benefits themselves because of their tax status, can allocate the deduction to eligible designers, defined as – A person that creates the technical specifications for installation of the energy efficient property. May include architect, engineer, contractor, environmental consultant, or energy services provider.

A/E firms performing work for any of the following could be eligible to have this deduction allocated back to them.

- Public Schools (Elementary, College, etc)
- Federal, Municipal or Military Buildings
- Indian Tribal Government
- Hospitals, Community Centers, Food Banks & Non-profits

Certification by an unrelated third party “qualified individual” is required, and savings range from \$.50 to \$5.00/sq ft. A trusted advisor can help a firm pre-qualify a project prior to breaking ground and/or review any completed projects for eligibility and potential savings.

## Work Opportunity Tax Credits

Commonly known as WOTC, these incentivize businesses to hire from certain populations in the workforce. Applying for WOTC can be tricky, so it is best to work with an experienced professional.

## Cost Segregation Studies

Cost Segregation Studies evaluate commercial or investment property to separate real and personal property, to accelerate depreciation. These studies need to be conducted by a licensed engineer and serve a second purpose. They provide a detailed inventory of all the components in a building, which comes in handy for another tax strategy, disposition, and insurance purposes when carriers are requesting additional or more detailed building data.

## Take Aways

Businesses are struggling with rising costs, talent shortages, and skyrocketing insurance rates. By taking advantage of one or more of these strategies (stacking), firms can retain revenue and advance business objectives.

- Rather than laying off, A/E firms can not only keep current employees but hire additional staff with R&D credits.
- Dollars from tax savings can offset rising P&C costs or increase employee benefits.
- Firms can bring tax strategies to clients, illustrating the benefits of incorporating green initiatives to developments and differentiating themselves from competitors' proposals.

Remember, most incentives and credits are intended to stimulate business. By consulting with a team of professionals, including your CPA and specialty tax experts, you can put the tax code to work for you and your business.