



# FrankelZacharia<sup>LLC</sup>

Certified Public Accountants

## R&D Tax Credit Opportunity for Construction Companies

Construction business owners are often looking for ways to save money. Many small business owners are aware that there are tax policies that can provide their companies with substantial savings. However, many taxpayers aren't aware of deductions and credits that are available to them. The research and development tax credit (R&D) is one such credit. Business owners may feel as though because they are not a scientific organization or in the technology industry, they may not qualify. Today we will look at the R&D tax credit and how construction companies can take advantage of it for their businesses.

### WHAT IS THE R&D TAX CREDIT?

The R&D tax credit was legislation passed in 1981 that provides incentives for businesses to create or advance new technologies for their business industries. The tax credit, initially passed for two years, remained as a part of federal legislation and was permanently extended as a part of the Protecting Americans from Tax Hikes (PATH) Act of 2015.

Eligible taxpayers can take advantage of the tax credit if they incur Qualified Research Activities expenses on U.S. soil, including wages paid to employees, supplies used during the development process, third-party contract research expenses and research payments made to qualified education institutions, among others.

### DO CONSTRUCTION COMPANIES REALLY QUALIFY?

Business owners of construction companies may believe that since they are not an inherently scientific or technological business that they do not qualify for R&D tax credits. There are numerous misconceptions about what R&D activities include.

Activities do not have to necessarily be performed in a lab or be revolutionary in order to receive the R&D incentive. For the improvement to be considered qualified for the R&D credit it must be related to an applied science. This includes chemistry, physics and engineering and the results must have followed dedicated testing procedures. This means that new products would qualify, but also would include improved software formulas and other processes.

For a construction company, this means that development of new building elements, structural improvements and design and other activities may qualify for the R&D tax credit.

### HOW CAN CONSTRUCTION COMPANIES QUALIFY FOR THE CREDIT?

In order to qualify for the credit, companies should ensure that their developments are considered innovation for the company. There may be other organizations or industries that have similar improvements, but in 2003, legislation expanded the qualification for the R&D credit via the Discovery Rule, maintaining that the improvement must only be new to the company seeking the incentive.

The construction company should keep detailed records of its testing and experimentation processes, including the exploration of any alternatives, when applying for the credit.

The credit is not limited to a single tax year. Expenses incurred for R&D in any tax year may qualify for the credit. This provides companies with the incentive to continuously improve and innovate. If your company has performed research activities in the past which you may have qualified for, consider working with a tax professional to review those activities. If they qualify, you may be eligible to file an amended return in order to take advantage of the R&D tax credit benefits.

If you have any questions regarding the R&D tax credit and whether your construction company may qualify, please contact Frankel Zacharia at 402.496.9100.