

TAX BREAKS for San Diego Businesses

alliantgroup®



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alliantgroup[®]

IN NUMBERS

FOUND
MORE
THAN

\$13

BILLION

IN GOVERNMENT
INCENTIVES

MORE THAN
55,000
STUDIES
COMPLETED

MORE THAN
20,000
BUSINESSES
SERVED

PARTNERSHIPS
WITH MORE THAN
4,000
CPA FIRMS

MORE THAN
215,000
JOBS
CREATED

THE **alliantgroup**[®]

STRATEGIC LEADERSHIP **TEAM**



**TOM
RIDGE**

Former U.S. Secretary of Homeland Security



**MIKE
JOHANNNS**

Former U.S. Secretary of Agriculture



**BOB
RILEY**

Former Alabama Governor



**KIT
BOND**

Former Missouri Governor



**HEIDI
HEITKAMP**

Former U.S. Senator (North Dakota)



**JIM
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**RICK
LAZIO**

Former U.S. Congressman (New York)



**HAROLD
FORD JR.**

Former U.S. Congressman
(Tennessee)



**JOE
CROWLEY**

Former U.S. Congressman
(New York)



**RICK
WHITE**

Former U.S. Congressman
(Washington)



**MARK
EVERSON**

Former IRS Commissioner



**STEVEN
MILLER**

Former IRS Acting Commissioner



**KATHY
PETRONCHAK**

Former IRS Commissioner of SB/SE Division



**DEAN
ZERBE**

Former Sr. Counsel, U.S. Senate
Finance Committee



**DAWN LEVY
O'DONNELL**

Former Counsel, U.S. Senate Finance
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**FRANK
TIRELLI**

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Deloitte Italy



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Thornton LLP

Former IRS
Commissioners:
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Former Counsels
to the Senate
Finance
Committee:
DEAN ZERBE
DAWN LEVY

ARCHITECTS | ENGINEERS | CHEMISTS | BIOLOGISTS
SOFTWARE DEVELOPERS | PhDs

Employee Retention Credit

Employee Retention Credit

Overview

The Employee Retention Credit is a refundable tax credit against certain employment taxes based on a percentage of qualified wages an eligible employer pays to employees.

Employee Retention Credit

Overview

- Employee Retention Credit was enacted as Sec. 2301 of the CARES Act.
- Effective 01/01/21, the Consolidated Authorizations Act, 2021 (“CAA21”) extended the ERC through ~~06/30/21~~, 12/31/21 with modifications that increases its value for eligible employers.
- The CA221 modifications:
 - Made it easier for a taxpayer to obtain the ERC
 - Increased the amount of the credit
 - Made the ERC available to employers that received a PPP loan

Employee Retention Credit

ERC MYTHS

My business was not shut down during the pandemic

Even a partial suspension or impact to your business would qualify.
For instance:

- A partial shutdown;
- A disruption in your business;
- Inability to access equipment;
- Having limited capacity;
- Suspensions of your supply chain or vendors;
- Reduction in services offered;
- Reducing hours to accommodate sanitation;
- Suspension of some locations and not others; or
- Suspension on some members of a business.



Employee Retention Credit

ERC MYTHS

I can't claim ERC if I've already claimed PPP

Now you can claim both! The Consolidated Appropriations Act (CAA) of 2021 removed the limitation on only claiming one or the other.



Employee Retention Credit

ERC MYTHS

My PPP loans were forgiven so I can't be eligible for this.

PPP will only account for 2.5 times your monthly payroll expenses and is meant to be spread out over 6 months. This leaves plenty of uncovered wage expenses for claiming ERC.



Employee Retention Credit

ERC MYTHS

Sales have rebounded for us in Q1 of 2021, I can't qualify for this credit

With the introduction of the CAA, you have the option to look at one quarter prior to determine qualification. This means we can determine eligibility based on lost revenue in 2020. Also, if you were subject to a shutdown you may qualify regardless.

Employee Retention Credit

Complexity of Claiming the Credit

- Interplay with PPP
 - Interplay with other Wage Based Incentives
 - FTE Calculation
- Full/Partial Suspension Test

Employee Retention Credit

Our Deliverables

- Summary of Findings
- Direct Business Impact of COVID-19 Review
- Industry Impact of COVID-19
 - Major industry impact (i.e., engineering)
 - Sub-specific-industry impact (i.e., engineering for manufacturing facilities)
 - Hiring Trends in industry
 - Employment trends in industry
 - Regulatory trends in industry
 - Supplier Impact
 - Shipping/logistics impact (if applicable)
 - PPE Industry requirements for employees

Employee Retention Credit

Our Deliverables Continued

- Geographic Impact of COVID-19 Report
- Qualification Requirements and Business Applicability Report
 - Full or Partial Suspension Analysis
 - Significant Decline in Gross Receipts Analysis
 - Eligible Employer Conclusion
 - Qualified Wages Analysis
 - Average Full Time Employee Calculation
 - PPP Interplay Analysis
- ERC Calculation
- Tax Credit and Utilization Analysis
- Credit Forms and Schedules of Qualifying Wages

Pressure Vessel Fabricator

Annual Revenue: **\$31 MM**

Credit Result: **\$277,000** in Federal Credits

Q1 2021 Qualifications

- Customers postponed and cancelled projects
- Drop in Sales
- Drop in revenue

Heat Exchanger and Air Cooler Manufacturer

Annual Revenue: **\$46 MM**

Credit Result: **\$441,000** in Federal Credits

Q1 2021 Qualifications

- Reassignment of employees to non-revenue generating activities
- Decrease in orders



Heat Exchanger Manufacturer

Annual Revenue: **\$10 MM**

Credit Result: **\$173,000** in Federal Credits

Q1 2021 Qualifications

- Reduction in revenue
- Company did not reduce payroll expenses

2020 Qualifications

- Reduction in revenue from Q2 through the rest of the year

R&D Tax Credit

Benefit of the R&D Tax Credit

- A **TAX CREDIT** is a dollar-for-dollar reduction in taxes paid or taxes payable
- Any taxable entity (C-Corp, S-Corp, LLC, partnership, Sch. C) can claim the R&D tax credit.
- Credit available in all open tax years (2016 – 2020)

The PATH Act

- R&D CREDIT IS MADE PERMANENT
- Starting with taxable years beginning on 1/1/16, “eligible small businesses” (ESB) may use the credits to reduce tax below TMT.
- $ESB \leq 50 \text{ M (2016 – 2020) / Average}$

Tax Cuts and Jobs Act

- More opportunity to use credits based on changes to the tax code.

Traditional vs Tax (DECEMBER 2003)

TRADITIONAL DEFINITION =
New to the World



TAX DEFINITION =
New to the Taxpayer



Traditional vs Tax (DECEMBER 2003)

TRADITIONAL DEFINITION =
Discovery Test



TAX DEFINITION =
4 Main Requirements

- New or Improved Business Component
- Elimination of Uncertainty
- Technological in Nature
- Process of Experimentation

Business Component Permitted Purpose Matrix

The Project's Business Component	The Purposes of the R&D Activities related to the...				
	Function	Performance	Reliability	Quality	Durability
Product	✓		✓	✓	✓
Process		✓	✓		
Software		✓			
Technique	✓				
Formula				✓	
Invention		✓			

Qualified Research Expenditures



Wages

Form W-2, Partnership Earnings subject to SE Tax, Schedule C

Excludes 401(k) & benefits



Supplies

Cost to fabricate prototypes/items consumed in R&D process

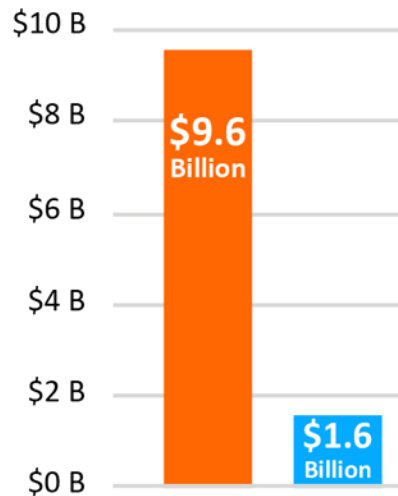


65% OF CONTRACT RESEARCH

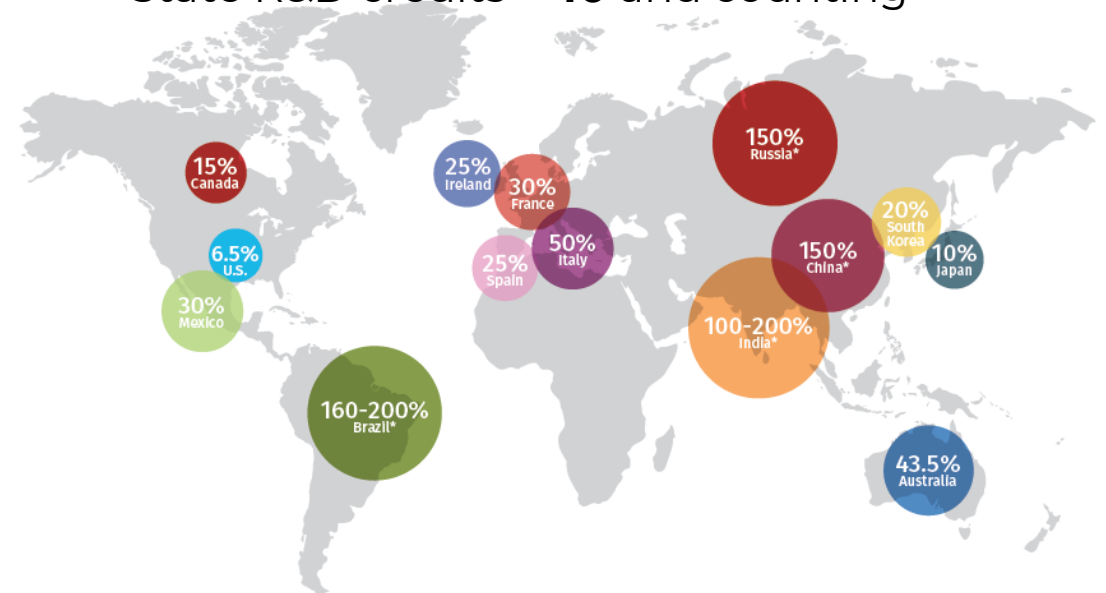
Fees paid to outside consultants/ subcontractors/ engineers/ software developers

R&D Tax Credits Executive Summary

- **16,600+** firms annually claim the credit, receiving over **\$11.2 billion** in federal tax credits
 - **\$9.6 billion** for companies with more than \$250 million in gross receipts
 - **\$1.6 billion** for companies with less than \$250 million in gross receipts



- Manufacturing remains at the top of the list with **37.5%** of the R&D Tax Credit claims.
- United States ranks **#27** in the world for the R&D Credit generosity (credit: ITIF.org)
- State R&D credits – **40** and counting



CUSTOM MANUFACTURING COMPANY

Annual Revenue: **\$12 MM**

Credit Result: **\$233,056** in Federal Credits

- Developing unique welding techniques to optimize manufacturing processes
- Custom fabrication of unique steel structures
- Shop quality insurance testing
- Custom fabrication of pressure vessels to meet ASME standards



Aerospace Manufacturing Company

Annual Rev. **\$100 MM**

Result: **\$4.2 MM** in Federal & State Credits

- Sought to improve the product using aluminum as the material composition while eliminating fiberglass from the design.
- Developed the original project concepts and evaluated the performance specifications to determine the tooling required to build the product.
- Assessed technical obstacles inherent to the project and created a plan to develop the prototype system.

Quote From The Owner:

“We are very happy with the results of our R&D tax credit study and have had a great experience working with alliantgroup to take advantage of this powerful incentive. We were sincerely surprised with the amount of money alliantgroup was able to save us by lowering our tax burden and now have additional resources to reinvest back in our company and in our employees. We recommend alliantgroup's tax services to any other company interested in seeing how they can benefit from the R&D tax credit like we did. “

Dental Laboratory

R&D Tax Credit: Federal & State

Annual Revenue: \$5.5 MM

Credit Result: \$675,176

- CAD design to develop one-piece and two-piece dental implants
- Evaluation of the appropriate material to fabricate dental implants
- Fabrication and milling of dental restorations and implants



Process Control Solutions Provider

Annual Rev. **\$5 MM**

Result: **\$632,000** in Federal & State Credits

- Providing custom control and automation solutions for various applications.
- Sequencing of system operations.
- Performing evaluations and system tests to ensure optimal functionality.

Food Processing

Annual Rev. **\$11 MM**

Result: **\$130,000** in Federal & State Credits

- Improved or developed new food product designs and manufacturing processes.
- Used principles of chemistry in formulation and development of new designs.
- Used process development of methodology in the combining of materials.



Information Technology Company

Annual Rev. **\$87 MM**

Result: **\$641,000** in Federal Credits

- Redesigned a wireless network system providing site and design validation of each system for a school district.
- Utilized specialized equipment such as 3D CAD modeling to create heat maps that identified wireless signals and signal-to-noise ratios.
- Provided multiple wireless design iterations that met both building material and layout specifications.

Thank you!

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