



FEDERAL CREDITS & ACCOUNTING METHODS

R&D Tax Credit for the Marine Industry

Before you show off your new model or features at the next boat show, think of all the testing that goes into getting your product just right. Did you know that the time and supplies that go into testing your new model or feature can provide you with a tax credit? Well, it can! Take advantage of the government's generous Research & Development Tax Credit (R&D Tax Credit) that can provide you with an immediate source of cash, as well as current and future reductions in your federal and state tax liabilities.

What Is the R&D Tax Credit?

The R&D Tax Credit is for taxpayers of any size that design, develop, or improve products, processes, techniques, formulas, inventions or software. Many companies fail to take full advantage of the R&D Tax Credit due to misconceptions about the types of research and development activities that qualify. A broad range of common practices in many industries, including boat and engine manufacturers, will qualify for the credit under the Internal Revenue Code's definition of research and development.

If a boat or engine manufacturer invests time, money and resources toward the advancement and improvement of its products and processes, it likely qualifies for the credit.

The best part is that the R&D Tax Credit is now a permanent credit, as provided by the Protecting Americans from Tax Hikes Act (PATH Act), and taxpayers can look back to all open tax years (typically, three years plus the current year) for a potential R&D Tax Credit that was never claimed. Many states also provide credits in addition to the federal credit.

Start-Up Company Considerations

If your business is considered a qualified small business (i.e., a start-up), it can use the R&D Tax Credit to offset payroll tax liabilities per year for five years. This can be a pivotal tax incentive for a start-up company that has generated no or minimal income tax liabilities. The Inflation Reduction Act (IRA) doubled the maximum amount of R&D tax credits that can be applied to offset employer payroll taxes from \$250,000 to \$500,000 for tax years beginning on or

after January 1, 2023. A qualified small business can apply the additional \$250,000 of R&D tax credits against the employer's 1.45% Medicare payroll tax liability.

Qualified small businesses should pay attention to these rules when considering the change in law:

- ▶ \$250,000 of R&D tax credits generated in a tax year can be utilized against the employer portion of the FICA payroll tax liability.
- ▶ \$250,000 of R&D tax credits generated in a tax year can be utilized against the employer portion of the Medicare payroll tax liability.
- ▶ The IRA maintains the rule that the election to utilize R&D tax credits against payroll tax may be made for a maximum of five tax years.
- ▶ Aggregation rules still apply to all persons or entities treated as a single taxpayer. The credit limit of \$500,000 is allocated amongst the group of entities and persons under the normal operation of Section 41.

How Much Is the credit?

The credit differs from a deduction in that it is an actual dollar-for-dollar offset against taxes owed or paid. While the computation of the credit can be complex, most boat or engine manufacturers receive a credit equal to 9% to 14% of total qualifying expenditures. Most qualifying expenses result from the wages paid to employees that participate in qualifying activities. If your company has been engaged in qualified activities for the last several years, you may be eligible to retroactively claim R&D tax credits.

How to Qualify

At the simplest level, the R&D Tax Credit is about encouraging basic science and/or applied science. Many in the marine industry do not understand the applied science aspect of the R&D Tax Credit, thinking that eligibility applies only to scientists.

If your business is involved in applied research, or practical and technical problem solving, then more likely than not, your company may be engaged in activities that qualify for the R&D Tax Credit. Our services can help you capture cash benefits that typically will greatly exceed the investment of this analysis.

Marine-Related Activities That May Qualify for the R&D Credit?

New or Improved:

- ▶ Initial computer aided work to design blueprints
- ▶ Plug and mold development used for prototypes
- ▶ Evaluating materials for construction of components (e.g., fiberglass, plastics, metals, synthetic blends)
- ▶ Lamination techniques and schedules
- ▶ Motor and powertrain development
- ▶ Flotation testing for weight distribution and capacity
- ▶ Simulations for performance of speed, safety and fuel economics
- ▶ Other production techniques
- ▶ Efficiency and process improvements

Contact us today for a complimentary no-risk assessment of your R&D Tax Credit options.



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