

USING THE CASH FROM THE R&D TAX CREDIT TO RE-ESTABLISH YOUR BUSINESS IN NEW JERSEY

**FEDERAL AND STATE R&D TAX CREDITS PROVIDE
EXCELLENT OPPORTUNITIES FOR MANY BUSINESSES IN
NEW JERSEY TO HELP RE-ESTABLISH THEMSELVES IN THE
AFTERMATH OF THIS GLOBAL PANDEMIC.**

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We have seen a marked increase in New Jersey companies monetizing R&D tax credits since early March, 2020. Our engineering teams are working with NJ companies daily to recover the cash from prior tax year credits and to support the necessary post Covid-19 business changes. This article focuses on 5 major New Jersey business categories that are utilizing the R&D tax credit benefits.

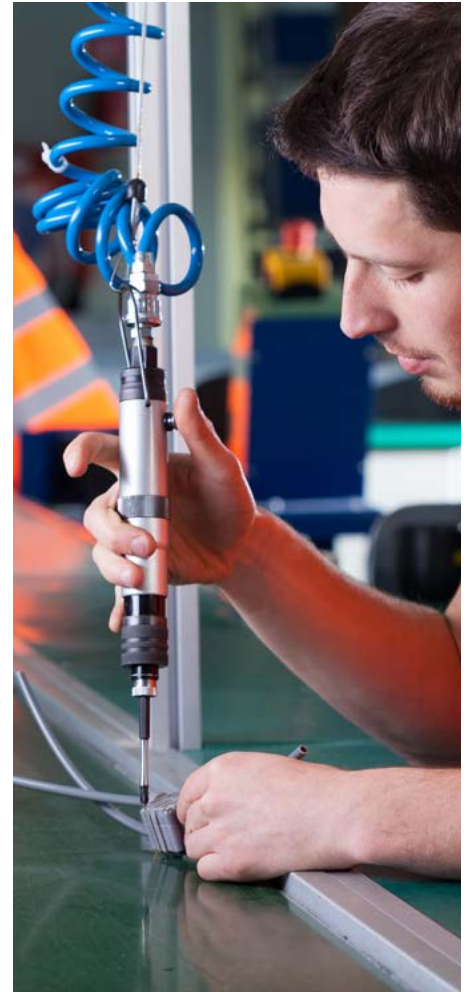
Manufacturing

If someone could name the quintessential industry associated with the state of New Jersey it would arguably be manufacturing.ⁱ In 2018 alone, manufacturers in New Jersey generated over \$52.70 billion. This comprised 8.43% of the Gross State Product (GSP). In fact, \$30.98 billion in manufactured goods were exported in 2018 (\$13.53 billion were exported to free trade agreement – FTA – partners).ⁱⁱ

One of the reasons New Jersey's manufacturing sector is so strong is due to the state's strategic location; exporting can be done by rail, air, sea or road. Products can be transported to large sites on the East Coast, such as New York City, Philadelphia and Washington D.C., by rail or by main arteries running through the state such as I-95 or I-287. Airports within the state provide flights to 90 cities and 110 international locations. Finally, the Port district of New York and New Jersey is the largest maritime cargo center on the East Coast and is one of the busiest seaport areas in the country.

If there was an industry that could be classified as the "classic candidate" for the R&D tax credit, it would be manufacturing. With activities that include new and improved products, new and improved processes, software developments, virtually all New Jersey manufacturers should be obtaining R&D tax credits because of this. As we have illustrated before, the manufacturing industry is an ideal candidate for the R&D tax credit.

Robotics and automated technology have become a widely used form of equipment within manufacturing facilities.ⁱⁱⁱ They offer multiple advantages, such as increased efficiency and ease of production activities. Incorporating robotics and automation into existing processes tends to require a significant design effort, whether it is developed internally or through the help of a 3rd party. Both efforts can qualify for R&D tax credits, including software development, algorithm development and tuning, machine learning, logic programming and integration, development of control systems and component selection.



Transportation, Logistics & Distribution

There is a large sector of New Jersey's economy dedicated to Transportation, Logistics & Distribution (TLD). From warehouses to trucking companies, TLD unequivocally supports the East Coast and Mid Atlantic's economies. In 2017 alone, TLD contributed more than \$59.2 billion to the State's GDP, making it the sixth-highest dollar amount contributed by an economic sector per state nationwide.^{iv}

Distribution centers and warehouses are the new brick-and-mortar for online retailers to store and distribute their goods to intermediary and end-user customers. In the past, when capacity was restricted, distribution centers focused on increasing density. Today, the goal is to relentlessly improve throughput. Becoming the modern retail engine, warehouses have increasingly begun to invest in applicable innovative technologies. These technologies include: narrow-aisle forklifts, co-packaging spaces, collaborative robots ("co-bots"), and other technologies including smart cards and conveyors. Other R&D credit eligible activities can range from software improvements (WMS, GPS, ERP, etc.) to integration of new processes to make shelving, picking/packing and locating items more time and cost-effective. All these improvements and technological advancements help New Jersey arrive at the right destination, while bringing R&D tax credits as well.



Food Production and Distribution

Food companies do particularly well in establishing the R&D tax credit. New Jersey has a significant amount of food manufacturing, production and distribution companies due to the state's vast amount of available resources.



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Food manufacturers can qualify for an R&D Tax Credit in multiple ways – both for product development, but also for process improvement. Today's food shoppers are far more discerning than the previous generation was. Today's consumer demands organic, whole-grain foods, with reduced trans-fats, sugar and salt, that are preservative-free. Today, food companies are substituting processed ingredients with healthy alternatives all while adhering to regulatory health and safety guidelines. NJMEP has an excellent food safety/training program. Food companies also face technical hurdles in the area of packaging and distribution developments and improvements as well. Sample activities that food companies engage in that qualify for the R&D tax credit include: test kitchen activities, experimenting with new ingredients, shelf-life testing and maximization, initiatives to increase

nutritional value, and incorporating new or lean manufacturing procedures. The delicious food New Jersey is home to is often the silent result of systematic testing and experimentation.

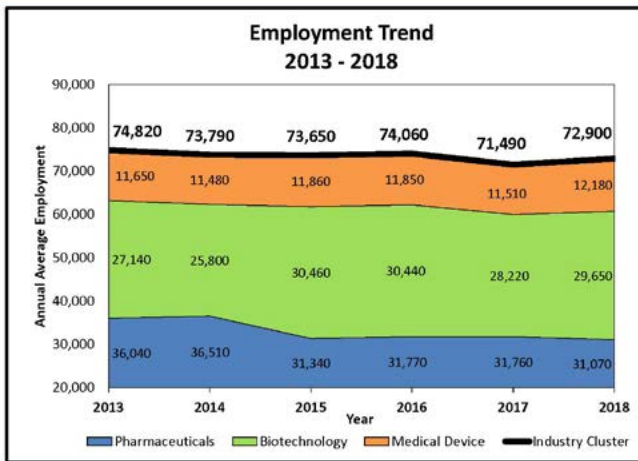
Rutgers Universities' Food Innovation Center located in Bridgeton, New Jersey, offers companies assistance with food manufacturing and process development. The center provides two food innovation locations which are USDA and FDA inspected, and contain food processing spaces for companies to experiment with creating new products and processes, as well as, technical laboratories to conduct tests and examine potential new food items.

With resources such as the Rutgers Food Innovation Center available to companies, one of our clients is actually a part of the Rutgers Food Innovation Center and utilizes its facilities for systematic experimentation and testing.

Life Science Sector

New Jersey is home to discovery. With a 125-year history of developing lifesaving medicines, it is home to 12 of the top 20 pharmaceutical companies. There are over 1,600 life science establishments in New Jersey and in 2018 it employed 2.1% of all private sector workers. The National proportion of life science employment to total was 1.1%^v. R&D in biotechnology comprises a large piece of the State's life science sector.

NEW JERSEY LIFE SCIENCES INDUSTRY SECTOR 5-YEAR EMPLOYMENT TREND



- With an average of 72,900 workers employed in this NJ sector in 2018, the employment over the 5-year period experienced a decline of 2.6 percent.

- The pharmaceutical component experienced the largest total percent loss over the 5-year period (-13.8%).

Source: NJ Department of Labor & Workforce Development, *Quarterly Census of Employment and Wages, 2013 - 2018 Annual Averages*. Prepared by: New Jersey Department of Labor and Workforce Development, January 2020

Life science is a strong category for the R&D tax credit, particularly because new product development takes a long time, often years. There is also a complicated testing and regulatory process that pose technical challenges to life science companies in particular. New Jersey has vibrant life science, health-tech and med-tech industries, virtually all of which should be obtaining R&D tax credits. Typical activities that qualify for R&D Tax Credits for pharmaceutical and medical device companies include integrating new techniques and assay/testing procedures, integrating new and emerging technologies, manufacturing or laboratory process improvements, and integration of new equipment.

Building Components

New Jersey has an optimal location for building component service companies to design and install building products for the large in state building inventory and for the contiguous large markets of New York City, Philadelphia and their suburbs. The categories of companies typically eligible for R&D tax credits are lighting specifiers, HVAC contractors, glass installers, elevator contractors, roof and insulation companies, audio visual companies and architecture and engineering firms.



The Research & Development Tax Credit

Enacted in 1981, the federal Research and Development (R&D) Tax Credit allows a credit of up to 13% of eligible spending for new and improved products and processes. Qualified research must meet the following four criteria:

- New or improved products, processes, or software
- Technological in nature
- Elimination of uncertainty
- Process of experimentation

Eligible costs include employee wages, cost of supplies, cost of testing, contract research expenses, and costs associated with developing a patent. On December 18, 2015, President Obama signed the bill making the R&D Tax Credit permanent. Beginning in 2016, the R&D credit has been used to offset Alternative Minimum Tax (AMT) and startup businesses can utilize the credit against \$250,000 per year in payroll tax liabilities.

The New Jersey State R&D Tax Credit

The New Jersey R&D tax credit utilizes the same definition as the Federal credit and provides a credit of 10% of the excess qualified research expenses over a base amount plus 10% of the basic research payments.^{vi}

Conclusion

There are many successful business sectors in New Jersey including manufacturing, transportation/logistics/distribution (TLD), food, life sciences and building components. Many of these companies utilize 3D printing, robotic devices and other similar technologies to automate their production processes, as well as develop other new or lean manufacturing improvements. New Jersey companies can benefit from the R&D tax credits to re-establish businesses that have been devastated by the Covid-19 Crisis. Research and development activities can provide eligible companies with Federal and New Jersey State Research and Development tax credits which are available to re-establish businesses reeling from the global pandemic and fuel further innovation.



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