New York State Brewer's Association blog

Craft Brewing and R&D Tax Credit is Tasty Combination

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Craft brewers that have not yet done so should consider whether investment in product development, formulations, recipes, techniques, and manufacturing processes may qualify for a federal tax subsidy known as the Research and Development (R&D) tax credit.

Many craft brewers may not realize that every day brewing activities may qualify under the updated or "relaxed" R&D qualification guidelines. Based on current guidelines, qualifying breweries may save up to 10% of every eligible dollar invested, either on a one-for-one basis in federal tax reduction or payroll tax expense rebates.

Effective January 1, 2016, the R&D credit was permanently extended as part of the Protecting Americans from Tax Hikes (PATH) Act.

One of other PATH Act changes allows R&D credits generated by small to medium-sized businesses in tax years beginning on or after January 1, 2016, to offset Alternative Minimum Tax (AMT) liabilities. A small or medium-sized qualifying entity is defined as a business with $50 million or less in gross receipts, determined by taking an average of the prior three years' receipts. Credits may reduce AMT in the prior year or carry forward for up to 20 years. Thanks to this favorable change, the ability to use R&D credits to reduce AMT as well as regular income tax will be beneficial for many craft brewing companies.

The PATH Act also allowed the ability for the R&D credit to be applied against the employer's OASDI (Social Security) portion of the payroll taxes, for "qualified" small businesses. A qualified small business is defined as one with less than $5 million in annual gross receipts for the tax year, and no gross receipts for any tax year before the 5- year period ending with the tax year. The payroll credit is limited to $250,000 per year for up to five years, and any unused portion can be carried forward to future years. The tax credit may also be claimed if the business uses a certified Professional Employer Organization (PEO).

The credit is calculated for three types of qualifying research expenditures incurred in conducting research: **wages** and **supplies** used in the conduct of qualified research activities, and a percentage (65%) of third party **contract research**.

In summary, the expanded R&D Tax Credit (1) provides a tasty incentive for breweries to evaluate investment for R&D credit qualification; (2) potentially permanently reduces federal and state effective tax rates, and (3) may provide breweries performing qualifying R&D activities the opportunity to monetize the R&D tax credit sooner than has been allowed in the past.

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