

TAX PLANNING:

Getting the Credit Your Business Deserves

By Grant Keppel



There are numerous federal and state tax credit programs available today. By failing to detect and act on them, businesses are passing up what could amount to a substantial tax savings. Tax credits are a dollar-for-dollar reduction of income tax. Some tax credits can save employers thousands of dollars of income tax for each qualified employee and could even result in cash refunds.

According to the General Accounting Office, only 1 in 800 businesses claim the tax credits for which the business is eligible. In the small- and medium-sized business market (i.e., revenues not exceeding \$50 million), \$4.2 billion in federal and state level tax credits go unclaimed.

Location-based and employee-specific federal and state tax credit programs have existed for a long time. The federal and state governments created tax credit programs as an incentive for businesses to hire certain types of people or establish their businesses in certain geographical areas. Yet less than 1% of businesses in these locations claim a credit. Approximately one in five new hires in the "minimum wage to \$12 per hour" pay range is eligible for an employee-specific tax credit.

The Credit Recovery Process

Why haven't businesses been claiming these credits? The truth is that the regulations and claim process for location-based and employee-specific tax credits can be cumbersome and confusing. Business owners and their tax advisors may be unable to keep up with this very fluid area of legislation. Unlike other tax credit programs, a business must, for instance, file certification forms with the state within 21 days of a hire date, requiring a systematic approach to claiming employee-specific credits.

Typical businesses that may qualify for employee-specific credits include restaurants, hotels and motels, nursing homes and assisted living facilities, retail stores, light manufacturers, distributors, and professional employers' organizations (PEOs) – companies with a high turnover or high percentage of minimum wage to \$12 per hour employees. Every business should pursue these credits upon hiring an entire work force as a result of a business acquisition.

There has been very little participation by these and other small and medium-sized businesses in these tax credit programs. Employers may not know that these credits exist, how to screen employees for eligibility, or how to certify eligible employees. There are over 925 federal, state, and local tax credits available to businesses.

Tax credit discovery is unusually time-consuming, and laws and regulations are constantly changing. Screening for eligibility does not always result in receipt of tax credits, which means that the hours spent to screen and certify certain tax

credits do not always benefit a business. Obtaining credits is basically not accounting, which is typically done at year-end, but more of an operational service. The solution is a systematic approach to tax credit discovery and recovery that guarantees a business pays only when it receives the credits – an automated service for businesses to implement.

An automated tax credit recovery service provided by tax credit professionals allows business owners and managers to focus on their core competencies. Hiring managers must simply add one additional form in the new hire process containing 8 to 10 yes/no questions and some follow-up information and submit the completed form to the tax credit professional. The process is completely hands-off for business owners from there.

The tax credit professional provides the certified tax credits to the business, less a small percentage to cover the costs to screen, certify, file, and claim the credit. If a credit is not found, the business has not wasted time or resources. Tax credit professionals can offer a no-risk, no-cost service with no additional time or effort required by the business.

Is Your Business Eligible for Federal Tax Credits?

A variety of federal tax credits are available to businesses. Some are based on hiring members of targeted groups or operating in certain locations. Others are more widely applicable.

Following is a list of the most common federal tax credits available today.

- Credit for employer paid FICA on tips**
- Credit for small employer pension plan start-up costs**
- Disabled access credit**
- Empowerment zone credits**
- Foreign tax credit**
- Fuel tax credit**
- Indian employment credit**
- Low income housing credit**
- New markets credit**
- Rehabilitation credit**
- Renewal Community credits**
- Research and development credit**
- Welfare to work credit**
- Work opportunity credit**

By discovering which tax credits your business qualifies for, and applying for them, you may be able to realize significant savings. **NFA**

Grant Keppel is the national director of Cost Segregation Partners, a consulting firm which specializes in cost segregation and tax credits. For more information, call him at (800) 591-0148 or send e-mail to Grant.Keppel@costsegregationpartners.com.