R&D Tax Credits Case Studies: Manufacturing and Distribution

The following are two examples of client development efforts in the manufacturing and distribution industry which further illustrate the types of projects and activities that will potentially qualify for the R&D tax credit. The eligibility of specific projects, activities and expenditures will depend upon a closer examination of the facts and circumstances in relation to applicable guidance.

New Product Development

Company developed a new coconut water beverage product based on findings that consumers prefer the taste of young green coconut water over mature coconut water. The goal was to improve the taste of mature coconut water that is 66% less expensive and in plentiful supply compared to young green coconuts. The company tested the mineral content of both young and mature coconut water and found that the sodium content was 6-8 times higher in the coconut water from mature coconuts and was the main driver for the difference in taste. They conducted in-house bench scale "shake-test" trials of ion exchange resin to first resin acidify and then resin deacidify mature coconut water and measured the effect on sodium content. To assist with the experiment, the company hired an ion exchange equipment manufacturer to build test equipment and conduct trials on reducing sodium content using ion exchange resins.

Further, the company conducted trials using electrodialysis to remove sodium and other electrolytes, tested the resulting product for mineral content, found that all minerals were depleted. Potassium was depleted proportionally to sodium. After extensive analysis of the expenditures and activities involved in this project, it was determined to qualify for purposes of the R&D tax credit.

New Process Development

Company sought to create a new process of fabric manufacturing to be used in the company's air filtration business unit. This new process development involved production of air filtration fabric without commonly used binders such as glue which can create excessive weight, cost and performance issues. The new process required exclusion of all binders from the fabric, which in turn required identifying a new combination of fibers (from millions available) that would work successfully with the existing manufacturing plant equipment. After experimentation with numerous equipment modifications and trial production runs with various fabric combinations, this initiative resulted not only in a new process with greatly reduced waste (and related expenses) but also led to the development of a much more environmentally friendly, lighter weight, better performing fabric. Prior to development of this new process the company would routinely experience a 20% waste factor due to 10" of scrap material on each side of the fabric being run. In the new process, because of the elimination of binders, the company can reuse the scrap material by reopening its fibers. This would not have been possible using the prior production process and has never before been applied to air filtration. After extensive analysis of the expenditures and activities involved in this project, it was determined to qualify for purposes of the R&D tax credit.

ANCHIN
Your Expert Partner
Accountants and Advisors

Anchin, Block & Anchin LLP
Accountants and Advisors
1375 Broadway, New York, NY 10018
212.840.3456 • www.anchin.com

Yair Holtzman, CPA, MBA, MS
Partner and Practice Leader
yair.holtzman@anchin.com