Accounting Methods and Credit Services
Tax

A new approach to R&D tax credits for the consumer products industry

The consumer products industry is investing in research and development (R&D) to develop new and improved products and technologies to keep pace with the competition and better serve their customers. Recent trends in consumer products that are competitively priced, and more durable, environmentally friendly, and new product categories have helped spur R&D innovation. Additionally, investments in automation and software technology to improve quality and increase efficiency are expenses that can result in an R&D incentive.

These investments are also changing how the consumer products industry approaches R&D tax incentives. With rising costs and competitive pressures, recovering a portion of R&D costs and increasing overall returns on R&D can lead to permanent cash and tax savings. Yet how can consumer product companies be sure they are receiving all the benefits for which they are eligible?

That's where KPMG LLP's (KPMG) research credit services come in.

KPMG's Research Credit Services practice can help companies identify federal, state, and even global R&D tax deductions and credits. Our national team of tax professionals has extensive experience in the consumer products industry. In addition, our tax professionals can utilize our proprietary KPMG LINK R&D Exchange software to help you identify and quantify eligible projects and activities and collect and organize financial data and documentation. Our combination of experience and technology provides a thorough and effective means of defining and documenting the R&D credit claims process.

Find R&D credits throughout your operations.

There is a wide variety of activities across the consumer products industry that can drive valuable R&D incentives, including investments to develop new product categories, improve product durability, evaluation of alternative raw materials, new plastic formulations, reduce manufacturing costs, improve environmental factors, and develop machinery and equipment to improve quality and efficiency and software technology.

Consumer product companies need to be aware of the various R&D activities throughout the concept development to product delivery process that could qualify for R&D credits and incentives.

- **Product Development:** Traditionally consumer product companies may have limited their identification of qualified R&D expenses to only those that involved prototype development. This typically includes a small group of scientists and engineers who develop the formulation, design, and initial prototype. This approach may leave several phases and expenses that qualify for the credit uncaptured. For purposes of the R&D credit, research may include not only the laboratory/prototype development stage but also the initial stages of development that include developing the concept internally and with customers. This phase of the development cycle may include additional groups within the company that could qualify for the credit. Specifically, this can include sales representatives, manufacturing engineers, and certain executives. This collaborative process in developing new and improved ideas such as formulations, changes in materials, product design, packaging design, and functional performance is critical in the development process. Consumer product companies may be able to claim the time and expenses during this phase of the process along with the traditional product development. Additionally, these groups may also be involved in meeting and providing guidance through the development cycle and could be included as R&D.

- **Process Improvement:** Consumer product companies may also overlook the advances that are made in their processing technology. Processes developed for new products and improvements to existing processes, (e.g., to develop more efficient or sustainable processes), may qualify for the R&D credit. Additionally, development of unique packaging may also be qualified expenses that are not captured. Recent changes[1] to how prototypes can be treated for R&D have made the identification and qualification of these expenses even more critical. Companies can potentially claim expenses incurred for contractors to engineer custom solutions and materials utilized for trial runs. Further, companies may be able to claim expenses related to tooling and equipment that was developed to manufacture these products. In certain situations, a large portion of the equipment and tooling expenses may be classified and captured as an R&D expense.
- **Software:** Consumer product companies can take advantage of recent changes[2] to how software expenses are treated. Prior to these changes, companies were able to take software expenses related to manufacturing and automation of equipment. New guidance[3] may now allow companies to claim credits on qualified expenses related to development and implementation of enterprise resource planning (ERP), customer relationship management (CRM), WebCommerce, and internet services. Many consumer product companies have implemented or are planning to implement new technologies to improve efficiency and add new functionality to their software. These improvements include better accounting controls and vendor management, marketing and customer experience software solutions, WebCommerce, and enhanced connectivity with clients and vendors through software solutions. These implementation efforts typically cover several years and can be very expensive. Any large implementation of new or improved software should be evaluated for its potential to qualify as an R&D expense.

…and realize greater return on your R&D investment.

KPMG has a wide-ranging methodology that leverages our combination of experience and technology that can help you realize a greater return on your R&D investments. First, we can help you identify and substantiate your organization's qualified research costs. KPMG's specialists can help you analyze systems, data, reports, and processes to locate and extract the transactional data related to the computation of R&D credits.

Next, we can help you capture qualified expenditures for available federal, state, and global incentives. This process includes helping to identify qualified research activities and related expenditures. It also includes assistance with implementing enhanced information-gathering processes and documentation procedures to better support R&D credit claims in future years.

Finally, we customize each review to meet your specific needs and industry parameters. This includes following a risk-based, industry-specific approach to help streamline and focus the information-gathering project on the key items to be documented.

Start realizing your tax credits … today!

A wide-ranging methodology, leading technology, plus a team of tax professionals who understand the intricacies of R&D incentives across numerous jurisdictions (federal, state, and global). Those are just some of the reasons many organizations like yours are turning to KPMG's Research Credit Services team. **Why not join them by contacting KPMG?**

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[1] See recent section 174-2 regulations in T.D. 9680, July 18, 2014.

[2] See proposed research credit regulations regarding computer software in REG-153656-03, January 20, 2015.

[3] See proposed research credit regulations regarding computer software in REG-153656-03, January 20, 2015.

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