Taxes: Companies Leaving Money on the Table

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Every year, rational and successful business leaders sign their tax returns and leave money on the table. What money is available and why don't they keep it?

The money left on the table generally has nothing to do with the federal tax return. In fact the complexity of the federal tax code and the federal tax return redirects the tax preparer's efforts to it. Plus, a 25-36% tax bracket means that every deduction on the federal return means more to the tax payer than a state tax deduction because the state tax bracket is generally around 6% on average. However, these business tax credits reduce a business' tax liability directly. They are not deductions and are much more valuable.

Other reasons businesses innocently walk away from valuable state tax credits are ranked as follows:

They are unaware of the true benefits and significance of these tax credits.
Meeting the documentation requirements can be complex and cumbersome.
They don't know where to find the specialized expertise necessary to qualify their efforts and obtain the tax credits.
There are three common types of state tax credits available as a result of the following business efforts/expenses in many states:

Job Retraining or Training,
Job Creation, and
Optional Investment.

We find that most companies engage in training activities annually and spend significant dollars to retrain employees on new technology, the implementation of new processes or equipment, and/or new regulations. While taking the normal tax deduction for business expenses on the state return and saving 6% in taxes, they could follow qualification guidelines and reduce their tax liability by up to 50% of amounts spent on these training efforts. For example, per employee for a company that spends $2,500 on this type of training reduces their tax liability by $150 per employee (assuming the 6% tax rate). Yet, assuming that these expenses qualified for tax credit treatment, they could reduce their tax liability by $1,250 per employee (50% of qualifying expenses), or $1,100 more per employee. For companies with 20 and 100 employees respectively the additional cash retained would be as follows:

Tax Deduction: 20 employees X $150 = $3,000 cash retained
Tax Credit: 20 employees X $1,250 = $25,000 cash retained
Additional Cash Retained with Credits = $22,000
Tax Deduction: 100 employees X $150 = $15,000 cash retained
Tax Credit: 100 employees X $1,250 = $125,000 cash retained
Additional Cash Retained with Credits = $110,000
Job Creation Credits are also common lost money where companies grow their staff during the year. Yet, they don't document and qualify this growth and translate these efforts into tax credits which, again, can reduce their tax liabilities up to as much as $3,500 per net new job created. The lost cash calculation is simple for this type of ignored benefit. It is the number of net new employees added times the per new job benefit. So, if that benefit per job is $3,500 and 10 new jobs were added, the company is walking away from $35,000 of money left on the table. However, unlike the retraining credit, many states that have new jobs tax credits available specify what types of jobs they wish to qualify and only certain businesses qualify for these credits. Common industries rewarded for job creation are manufacturing and tourism. However, the industries that qualify can vary greatly from state to state.

Many companies invest major dollars in equipment that can translate in to a successful business model for years to come. What they commonly miss is that many states will reward them for such investments in the form of tax credits that can benefit the company for up to 5 years. The calculation of the benefits of these tax credits can vary state to state, but let's look at one model. Assuming that the business had a $100,000 tax liability the previous year and after adding the new equipment, their tax liability jumps to $200,000. Some states will reduce the additional tax liability by up to 90%. So, the tax savings for this year will be $90,000 with a total tax due of $110,000 instead of $200,000. Imagine the true 5 year benefit of this credit over the remaining 4 years. Even if the state calculation varies, this is way too much money to leave on the table.

So, by now, you may be wondering how companies can qualify for these significant tax credit benefits. The answer is find a specialty firm that has specific knowledge of the available tax credits at the state level and knows how to qualify your company to benefit from these credits. It can be possible to go back and get previous benefits from prior tax periods by amending those returns. This specialty firm should also work on a success only basis and only charge when you benefit. The rules and benefits vary by state, but you should not walk away from money that rightfully belongs to your company. Please feel free to contact us for further details