

THE R&D TAX CREDIT – A GAME CHANGER FOR FIDELITY INDUSTRIES

BACKGROUND:

FIDELITY Industries is a leading independent U.S. manufacturer of vinyl wall coverings for use in offices, hotels and health care facilities throughout the world. The company was founded over 40 years ago as a small manufacturer of basic vinyl wall covering. Today FIDELITY Industries manufactures numerous brands of wall covering in over 350,000 feet of production and warehousing space covering the widest scope of specification, design and color available. All products meet or exceed specifications for Type I and II class A, B, C & D wall coverings when tested in accordance with ASTM E 84 standards and all have a CE Declaration of conformity.

FIDELITY has also taken a leadership role in producing environmentally friendly products. A decision was made over twenty years ago to eliminate all solvents, ozone depleting chemicals and heavy metals from our production processes. Today they not only follow those procedures but they also produce exclusively on low VOC emitting vinyl and use backing of recycled product whenever possible. Over 90% of their production waste is now recycled into alternate product use eliminating it being dumped in landfills.

CHALLENGE:

FIDELITY Industries, like many other manufacturers, is trying to maintain its competitiveness in the market place. Their success is dependent on its commitment to research and development, and they wanted to obtain maximum benefits from the available tax credits for its increasing research activities, design and work, and modification of processes.

SOLUTION:

The relationship between FIDELITY and NJMEP goes back to 2011, where they have taken advantage of the tax credits previously. A business assessment was conducted by NJMEP, which uncovered the fact that FIDELITY would once again be an ideal candidate for a R&D Tax Credit renewal.

NJMEP worked closely with FIDELITY to perform an in-depth study; and reviewed the guidelines with the client to ensure they understood that they must pass all four qualifying criteria:

- The goal has to be to discover some technological information that does not already exist within the organization.
- There must be a level of technical uncertainty related to the product or process development.
- Any qualified event must have a process of experimentation to prove or disprove a technical theory.
- The research must have goals attributable to function, efficiency, capacity, or other performance criteria.

The preliminary information and the eligible R&D costs were reviewed by NJMEP. These costs, combined with information relating to gross revenue and other information allowed NJMEP to provide FIDELITY an approximation of the Federal R&D credits it would receive.

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NJMEP prepared the technical support documentation for FIDELITY's filing of the R&D tax credit by writing technical project reports for the tax year. The objective of the reports is to demonstrate that the activities are indeed "R&D" within the meaning of the credit and its guidelines. The report highlighted not only the successful outcomes, but also the doubts, difficulties, unsuccessful experiments that marked the course of development efforts.

The R&D Tax Credit Process Includes:

- Reviewing the list of development projects and selected eligible R&D projects.
- Client preparing a narrative or description of each project for the accounting firm's review.
- The accounting firm reviewed the narrative and made some revisions to eliminate ineligible areas or activities.
- The client supplied information enabling the accounting firm to allocate costs to the eligible projects.
- NJMEP worked with the client to gather costs that related to the R&D projects.
- The accounting firm prepared the necessary tax forms and submitted the tax return and R&D tax credit on the client's behalf.

RESULTS:

FIDELITY secured—and sustained under IRS exam, federal R&D tax credits. The credits received have enabled FIDELITY to reinvest in their company through a talented workforce, resulting in increased sales.

FIDELITY Industries Inc. benefited greatly from NJMEP's help in many ways:

- Increased sales: \$1,000,000
- Retained Sales: \$10,000,000
- Cost Savings: \$40,000
- New Employees: 3
- Employees Retained: 40

"We view the R&D tax credit as a necessary source of funding for the further growth and development of our company, helping to ensure our long-term prosperity. NJMEP helped us better understand our company's eligibility, the advantages of R&D and a long-term strategy to maximize the credits." Shmuel Brook, Vice President FIDELITY Industries.

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