

## ▶ Interesting Business Tax Credits Often Missed

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The Internal Revenue Code provides Income tax credits for taxpayers in order to incentivize certain activities, such as using “green” products or retaining employees. Over the years, we have discovered that most business owners are unaware of many of the tax credits for which they may be eligible.

Tax credits are beneficial to businesses because they are applied directly against a business’s tax liability, thereby lowering the tax obligation dollar for dollar. Tax credits can be more beneficial than deductions because deductions only lower taxable income by the percentage of the business’s highest federal income tax bracket. For example, if a taxpayer takes a \$1,000 credit, their tax liability is lowered by \$1,000. However, if the same taxpayer takes a \$1,000 deduction, and they are in the 22% tax bracket, their total income will be reduced by \$1,000, but their total tax liability will only be lowered by \$220.

The general business credit is a non-refundable credit with limitations comprised of several separate business credits and is reported on Form 3800. We have compiled a list of some other common business credits below to help ensure you are not missing an opportunity to lower your tax liability.



### NEW PAYROLL TAX CREDITS

**Employee Retention Credit:** This credit is a part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which incentivizes businesses to keep employees on their payroll by offering a credit in the amount of 50% of wages paid to qualified employees between March 12, 2020 and January 1, 2021 up to \$10,000.

**Employer Credit for Paid Family & Medical Leave:** This credit incentivizes employers who provide their employees with paid family and medical leave. The employer must have a written policy in place that provides at least two weeks of paid leave to employees at a rate of at least 50% of their normal wages in order to be eligible for the credit. In addition, the employee receiving the paid leave must be employed by the employer for at least one year and have compensation of \$72,000 or less.

### COMMON INCOME TAX CREDITS

**Work Opportunity Credit (Form 5884):** The goal of The Work Opportunity Credit is to incentivize employers who hire employees from certain targeted groups who typically face barriers to employment, such as qualified long-term unemployment recipients, qualified veterans, summer youth employees, and ex-felons.

**Low-Income Housing Credit (Form 8586):** This credit is available for residential rental buildings in low-income housing projects. In order to take the credit, a portion of the rental buildings must be rent-restricted and occupied by individuals whose income is less than the area median gross income.

**Disabled Access Credit (Form 8826):** The goal of the Disabled Access Credit is to incentivize small businesses to make their facilities accessible to individuals with disabilities. Small businesses can deduct 50% of reasonable and necessary expenses incurred in order to comply with The Americans with Disabilities Act of 1990. Eligible expenses include amounts incurred to remove barriers that prevent accessibility, to provide interpreters or qualified readers, and to acquire or modify equipment.

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**Energy Efficient Home Credit (Form 8908):** This credit is available to contractors who sell or lease new, energy efficient homes to individuals for use as a primary residence. In order to qualify, the contractor must have basis in the property. The amount of the credit depends on the level of the home's energy consumption.

**Credit for Employer-Provided Childcare Facilities and Services (Form 8882):** The goal of this credit is to incentivize employers who offer childcare to their employees. Employers can deduct 25% of qualified childcare expenditures, such as expenses incurred to acquire, construct, or rehabilitate property to be used as a childcare facility and operating expenses.

**Credit for Small Employer Pension Plan Startup Costs (Form 8881):** This credit encourages small businesses to set up a pension plan for employees. Small businesses can deduct 50% of expenses associated with establishing an eligible employer plan and educating employees about the plan.

**Increasing Research Activities (R&D) (Form 6765):** The goal of this credit is to incentivize increasing research activities such as product development, surveys or studies, and research related to computer software. It does not just apply to "white coat" labs anymore.

**Alternative Motor Vehicle Credit (Form 8910):** This credit is designed to encourage businesses to purchase alternative motor vehicles. The Alternative Motor Vehicle Credit is available to businesses that purchase a qualified fuel cell vehicle during the tax year. Generally, manufacturers can certify to the IRS that a specific make, model, and year of vehicle qualifies for the credit.

**Small Employer Health Insurance Credit (Form 8941):** This credit encourages small businesses to offer health insurance to their employees for the first time or maintain coverage that is already in place. Eligible small employers can deduct up to 50% of premiums paid for employees' health insurance coverage under a qualifying plan.

**Investment Credit (Form 3468):** This credit consists of the rehabilitation, energy, qualified advanced coal project, qualified gasification project, and qualified advanced energy project credits.

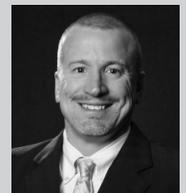
**New Markets Tax Credit (Form 8874):** This credit may be claimed for equity investments made in low-income communities through a qualified community development entity (CDE).

For a complete list of credits, please visit <https://www.irs.gov/businesses/small-businesses-self-employed/business-tax-credits>. There are many more credits available than those listed in this article, most of which are highly specialized and less general. If you feel you may be entitled to a tax credit or would like more information, please contact our office.



### About the Author:

Michael E. Helton is a shareholder and joined Rivero, Gordimer & Company in 1999. He has considerable experience in tax preparation, planning, and consultation for individuals and businesses, estates and trusts including estate planning, mergers and acquisitions of closely held businesses, and other tax-related topics.



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