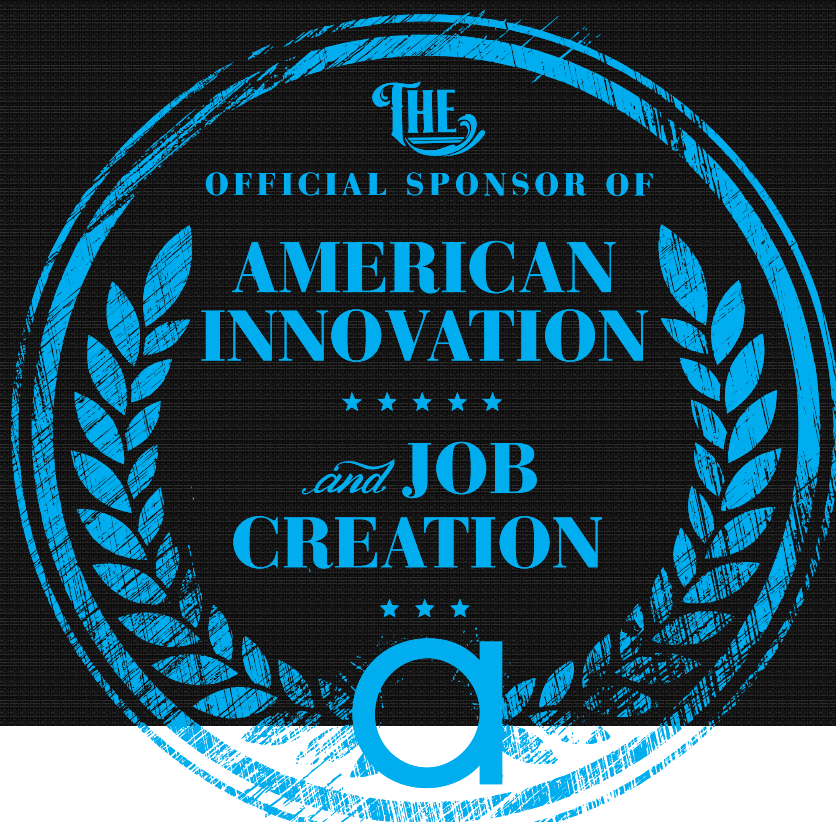


R&D Tax Credit: Wine Industry

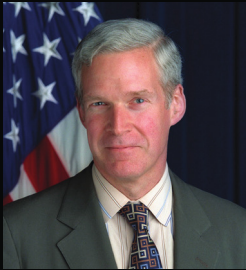
Reed Showalter, CPA
Managing Director



alliantgroup

THE **alliantgroup**[®]
ADVANTAGE

OUR TEAM



MARK W. EVERSON
*Former IRS Commissioner;
 alliantgroup Vice Chairman*

Mark served as Commissioner of Internal Revenue from 2003-2007. Prior to the IRS, Mark held Bush administration posts as Deputy Director for the Office of Management and Budget (OMB) and Controller of the Office of Federal Financial Management. In the private sector, Mark served as Vice President of a \$2 billion food services company.



WALTER HARRIS
*Former IRS LB&I Industry Director;
 alliantgroup Director of IRS Practice and Procedure*

Walter has served the IRS since 1981 and held several key positions within the agency. As the LB&I Industry Director, he was one of only five senior level IRS executives and oversaw the Northeast operations. In addition, Walter provided executive leadership to over 600 LB&I executives.



JIM RAMSTAD
*Former U.S. Congressman and Chairman of the IRS Oversight Committee;
 alliantgroup Senior Advisor*

Jim served in Congress from 1991-2009. He was a member of the House Ways and Means Committee, and Chairman of the IRS Oversight Committee. Jim is the 1998 recipient of the Fulbright Distinguished Public Service Award.



BLANCHE LINCOLN
*Former U.S. Senator;
 alliantgroup Director*

Blanche served in the U.S. House of Representatives and Senate, representing Arkansas's 1st Congressional district from 1993 to 1997. She is widely recognized as a national leader in agriculture, anti-hunger, aging, healthcare, international trade, taxes, and energy policy.



BOB RILEY
*Former Alabama Governor;
 alliantgroup Director*

Bob is the former Governor of Alabama (2003-11) and also served three terms in the U.S. House of Representatives. Bob was instrumental in spurring economic development and lowering unemployment rates in Alabama. He is passionate about creating new jobs and keeping jobs in the U.S.



KIT BOND
*Former Missouri Governor and U.S. Senator;
 alliantgroup Senior Advisor*

With more than 40 years of public service, Kit brings his experience as Missouri State Auditor (1971-73), Missouri Governor (1973-77, 1981-85) and U.S. Senator (1985-2011) to the table. He served as Chairman for the Committee on Small Businesses and Entrepreneurship and as Vice Chairman of the Senate Intelligence Committee.



RICK LAZIO
*Former U.S. Congressman;
 alliantgroup Director*

Rick served in the U.S. Congress from 1993-2001. In addition to Capitol Hill insights, he brings a wealth of private-sector business and financial experience. Rick is a skilled prosecutor and most recently held the Executive VP position at JPMorgan Chase. While in Congress, Rick sponsored the successful Small Business Tax Fairness Act.



DEAN ZERBE
*Former Senior Counsel to the Senate Finance Committee;
 alliantgroup National Managing Director*

Dean is the former Senior Tax Counsel to the U.S. Senate Committee. During his tenure, Dean was intimately involved with major tax legislation, including the 2001 and 2003 tax reconciliation bills, the JOBS bill in 2004 (corporate tax reform), and the Pension Protection Act. Dean is a regular contributor to Forbes.



DAWN LEVY
*Former Counsel to the Senate Finance Committee;
 alliantgroup Director*

Dawn is known throughout Washington for her solid understanding of Senate and House procedures. As Tax Counsel to the Senate Finance Committee, Dawn supported the tax team, working energy issues, pension concerns, corporate tax matters, and other tax expenditures. She worked with professional staff and Congressional members, putting amendments together, writing legislation, and working with different committees.



BOB PRATZEL
*Former HOK CFO;
 alliantgroup Strategic Advisory Board*

Bob is currently Senior Financial Advisor and is former Chief Financial Officer and Treasurer for 26 years with the international design firm of HOK Group, Inc., one of the world's largest firms in the general building design industry. During his tenure, the company grew five-fold and became widely recognized as one of the best managed and diversified practices in the country. In 2009, Bob was voted CFO of the Year by the St. Louis Business Journal.



JAMES FRANKEL
*Partner at Arent Fox LLP;
 alliantgroup Strategic Advisory Board Member*

James served as the General Counsel of AIA-New York for 14 years. As a senior partner in the Construction Group at Arent Fox LLP, his current law practice focuses on front-end project structuring, transactional documentation and contentious dispute resolution within the owner, architect, engineering, and construction communities. James' 30-year practice within the built environment has served owners, architects, engineers, and construction clients.



Benefit of the R&D Tax Credit

- Reduction in taxes
 - Usually generates an **IMMEDIATE** source of cash
- Benefit for new *AND IMPROVED* business activities
- Additional Capital - \$\$\$
- Credit is available in all open tax years
- Carry-forward for up to 20 years
- Quick turnaround – typically, only 12-18 weeks to perform study – depending on the size of the client

DID YOU KNOW?

More than 30 industries qualify



AEROSPACE



AGRICULTURE



APPAREL &
TEXTILES



ARCHITECTURE



CHEMICAL



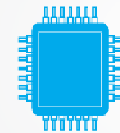
CIVIL
ENGINEERING



CONSTRUCTION



DAIRY FARMING



ELECTRICAL
ENGINEERING



ENVIRONMENTAL
ENGINEERING



FEED MILL



FOOD &
PACKAGED GOODS



LIFE SCIENCES



MANUFACTURING



MECHANICAL
CONTRACTING



OIL & GAS



SOFTWARE



WINEMAKING

for valuable tax incentives

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R&D Tax Credit

Summary and Background

R&D – Background Discussion

Introduction of the R&D Tax Credit:
Economic Recovery Tax Act of 1981

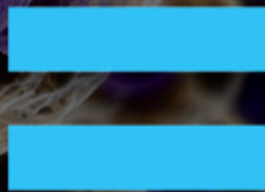
QUALIFIED RESEARCH ACTIVITIES (QRA)

- 1) Discovery Test – “NEW TO THE WORLD” REQUIREMENT
- 2) Contemporaneous Record-Keeping

“Traditional” vs. “Tax”

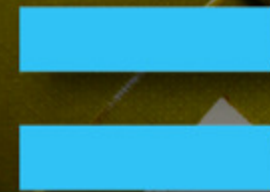
(DECEMBER, 2003)

TRADITIONAL DEFINITION



**New to the
World**

TAX DEFINITION



**New to the
Taxpayer**

TRADITIONAL DEFINITION

Discovery Test

TAX DEFINITION

Four Main Requirements

1. New or Improved Business Component
2. Technological in Nature
3. Elimination of Uncertainty
4. Process of Experimentation

#1 – New or Improved Business Component

Business Component Purpose Matrix					
The Project's Business Component	The Purposes of the R&D Activities related to the...				
	Function	Performance	Reliability	Quality	Durability
Product	✓		✓	✓	✓
Process		✓	✓		
Software		✓			
Technique	✓			✓	
Formula				✓	
Invention		✓			

**Winery #1
Case Study**

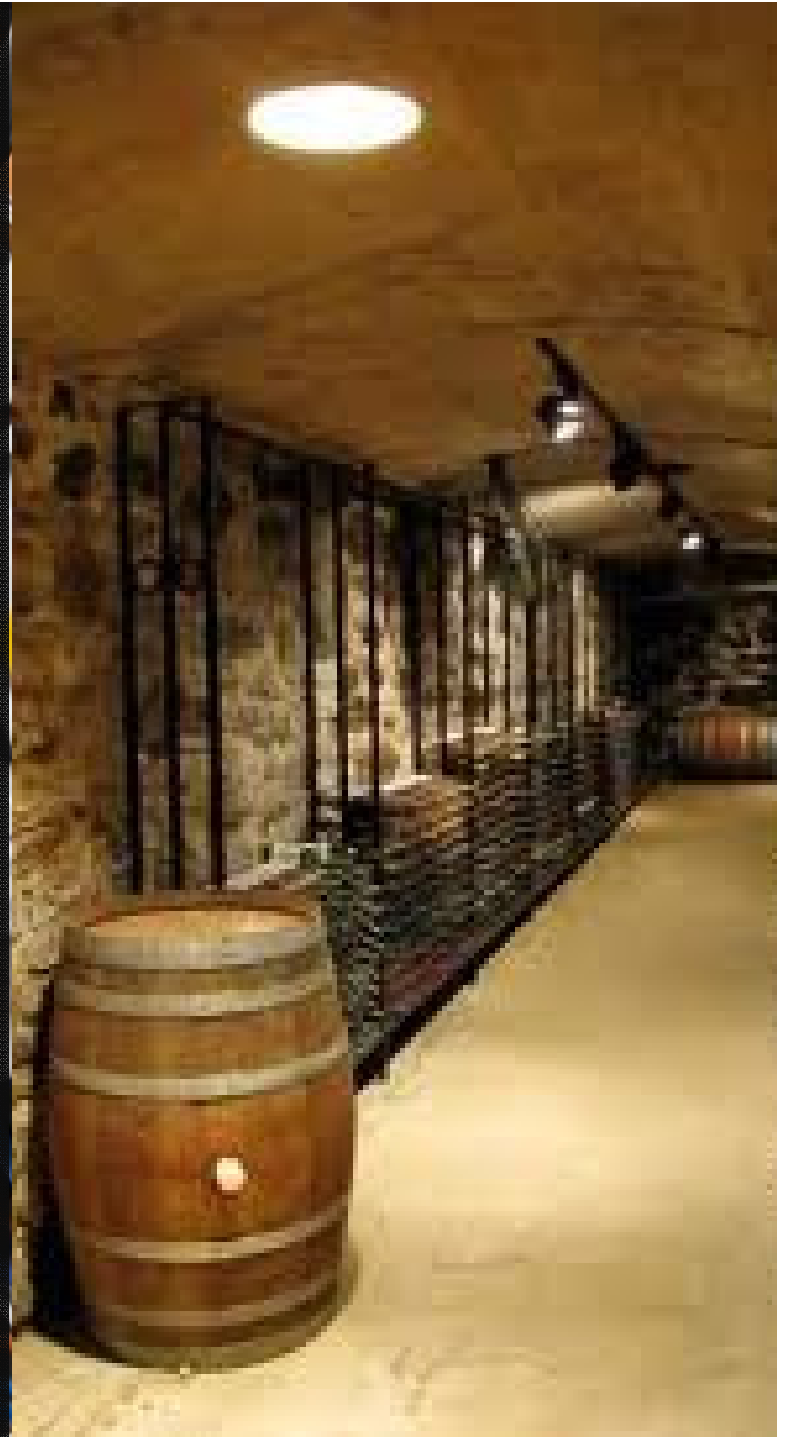
R&D Tax Credit

Company Revenue: \$29MM

Entity Type: S-Corporation

Credit Result: \$510,000 (Federal and California R&D Credits)

3 year study



Winery #1 Case Study (con't)

Sample Winemaking Process Improvements :

Research related to wine cave development:

Ongoing design and development to subterranean wine cave improvements;

Overcoming uncertainty related to the final designs of the improvements to increase the functionality of the caves;

Addressing challenges related to the optimal methodologies of production within wine-barrel storage caves;

Evaluating environmental and functional conditions in each cave to optimize storage functionality;

Evaluating conditions including not limited to, humidity, lighting, ventilation, temperature, and fermentation in barrels for wine production; and

Utilizing principles of mechanical engineering, electrical engineering, structural engineering and viticulture to meet project specifications.



R&D Credits Eligible Costs (QREs)

- **Wages**
 - Form W-2, Partnership Earnings subject to SE Tax, Schedule C
 - Excludes 401(k) & benefits
- **Supplies**
 - Cost to fabricate prototypes / items consumed in R&D process
- **65% of Contract Research**
 - Fees paid to outside consultants / engineers / software developer

Winery #2 Case Study

R&D Tax Credit

Company Revenue: \$3.1MM

Entity Type: LLC

Credit Result: \$165,000 (Federal and California R&D Credits)

2 year study



Winery #2 Case Study (con't)

Sample Vineyard activities:

Research related to the optimal vineyard plots for purchase:

Research for future real estate acquisitions in order to increase wine production activities;

Overcoming uncertainty related to the capability of production for these lands;

Evaluating the soils, water availability, slope, and aspect of properties to assess the potential for grape cultivation; and

Determining potential strains for implantation on these lots.



Mechanics

For every \$100,000 of qualified research expenditures (QRE's):

- Up to \$6,500 in Net Federal R&D tax credits
- Up to \$6,5000 in California R&D tax credits

If credits cannot be used in the year they are generated:

- Federal: 20 year carryforward; 1 year carryback (5 years for 2010 credits)
- California carryforward indefinitely

Winery #3 Case Study

R&D Tax Credit

Company Revenue: \$65MM

Entity Type: Partnership and S-Corp

Credit Result: \$525M (Federal and California R&D Credits)

3 year study



Winery #3 Case Study (con't)

Sample Winemaking Process Improvements :

Improvements to bottling techniques:

Ongoing design and develop improvements to wine bottling techniques;

Determining the optimal method of filling bottles and the capability of implementing the improved methodology;

Investigating both method improvements to packaging materials and counter-pressure filling technological developments;

Evaluating varied methods of filtration to prevent microbial spoilage to increase wine quality;

Performing side-by-side assessments of various screw cap liner materials to determine the effect on package integrity and product quality after bottling;

Utilizing principles of engineering and viticulture to develop improvements to bottling techniques;

Developing improvements to bottle labeling materials;

Facing issues regarding developing final designs of the new labels; and

Executing functionality tests with newly available materials to increase bottling efficiency



**Winery #4
Case Study**

R&D Tax Credit

Company Revenue: \$2.9MM

Entity Type: S-Corporation

Credit Result: \$125 (Federal and California R&D Credits)

2 year study



Winery #4 Case Study (con't)

Sample Winemaking Process Improvements :

Economic Efficiency Research to Improve Production:

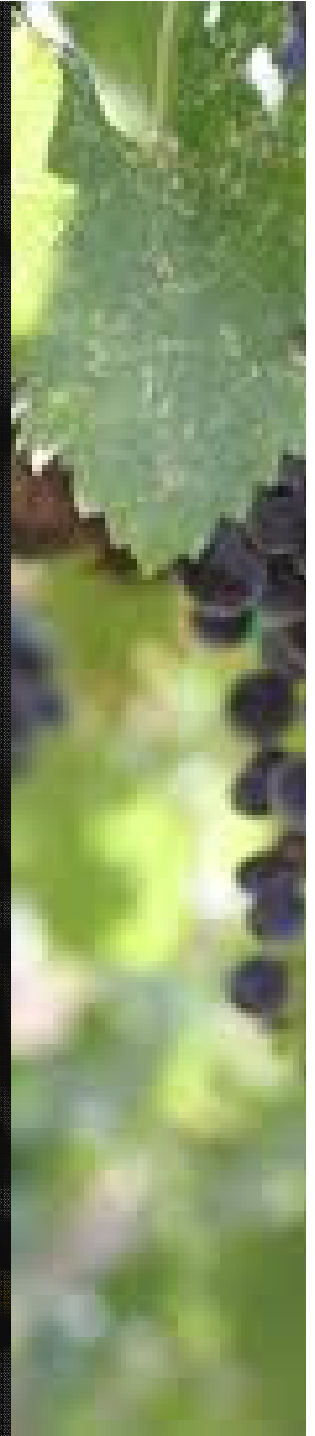
improvements to the economic efficiency of the fermentation process;

Utilizing and optimizing various systems to monitor, control, and record fermentation processes;

Experimentation with new automated tanks to improve both efficiency and precisions of winemaking practices during fermentation;

Experimenting with equipment through side-by-side trials to assess and then purchase automated sorting and crushing equipment; and

Assessing trials with in-place barrel washing systems in order to increase labor efficiency and barrel hygiene.





Winery #5 Case Study

R&D Tax Credit

Company Revenue: \$90MM

Entity Type: S-Corporation and Partnership

Credit Result: \$960 (Federal and California R&D Credits)

4 year study

Winery #5 Case Study (con't)

Sample Winemaking Process Improvements :

Vineyard Improvements

Developing land for optimum cultivation of various grape strains;

Evaluating numerous clones of different production strains to develop selection based on quality and production criteria;

Developing unique or customized canopies to protect the fruit from environmental conditions that are compatible with mechanical pruning and harvesting processes;

Assessing the vineyard to determine the optimal row orientation and block layouts;

Designing and implementing trellis improvements by integrating various support systems and shoot positioning;

Designing new cross arms for structural support and additional wiring to increase the rigidity of structures;

Assessing different alternatives and equipment to prevent frost damage on new growth

- Orchard heaters;

- Sprinkler frost protectors; and

- Wind machines.

Winery #5 Case Study (con't)

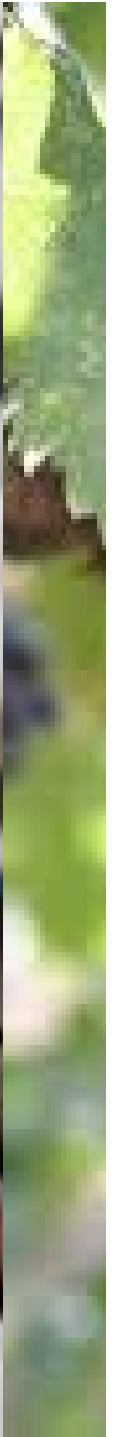
Sample Winemaking Process Improvements :

Vineyard Improvements

Overcoming challenges related to the optimal method of preventing soil-bourne disease in the grapes and reducing spread of disease and other parasites;

Evaluating water sources, testing for contaminants and developing potential solutions to meet production goals;

Assessing varieties, rootstocks, and vine density of the proposed crop; and
Testing soil characteristics related to moisture content, grade sloping, and permeability.



Sample Forms of Documentation for Wineries and Vineyards

- Blend analyses;
- Blend trial notes;
- Additive trial notes;
- Acidity adjustment analyses;
- Tasting panel notes;
- Blend code information;
- Package/label specifications; and
- Handwritten notes/drawings.

Utilization

- Losses/NOLs
- AMT
- Passive ownership
- ESOP
- Trusts
- 41(g)
- Statutory deadline considerations

**Now do we work
together?**

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Thank you.

For more information or any questions please contact:

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916-949-6904

