

# Manufacturers Unsure About Cybersecurity and R&D Tax Credits for Internet of Things Investments

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*The MPI Internet of Things Study indicates manufacturers are unsure or not confident in their ability to prevent a cybersecurity breach at their company, and are not planning to take tax credits available for IoT investments.*

(SupplyChain 24/7 - 24/7 Staff: 2-22-16) While roughly two-thirds of manufacturers believe that the Internet of Things (IoT) will increase their profitability, they are lagging in two critical areas to maximize their IoT opportunities: cybersecurity and research and development (R&D) credits.

These are among the findings from the MPI Internet of Things Study, sponsored by U.S. professional services firm BDO.

The study revealed that nearly half of manufacturers (49 percent) are unsure or not confident in their ability to prevent a cybersecurity breach at their company.

Only 8 percent of manufacturers report they are very confident in their current cybersecurity protections to prevent an IT breach.

Security challenges are becoming more prevalent across all industries, but particularly for manufacturers who are pushing full steam ahead to upgrade their production processes and evolve their products. Last year, the BDO Manufacturing RiskFactor Report found that 86 percent of manufacturers cited risks related to data security in 2015, up from 78 percent in 2014.

Despite those risks, nearly half of manufacturers (45 percent) do not have or are unsure if they have an information security policy in place addressing Internet connected devices that are not used as a computing or communications platform. Moreover, 44 percent do not have or are unaware as to whether or not they have the ability to detect and identify unauthorized Internet connected devices.

“The ability to detect and manage a data breach is critical for manufacturers in order to protect their IP, as well as their employees’ and customers’ privacy,” said Shahryar Shaghghi, National Leader, Technology Advisory Services for BDO.

“As manufacturers move to a more connected way of doing business, they need to be mindful that with more access points come more opportunities for hackers to infiltrate the network, making it imperative that companies embed security into IoT products and services from design through distribution, assessing risks and considering the exploitability of cybersecurity vulnerabilities in all products is vital.”

The survey also highlighted underused research and development tax credits. A vast majority of manufacturers (84%) are not planning to take advantage of tax credits and incentives, like the R&D tax credit, available for IoT investments.

“Manufacturers agree that IoT is a groundbreaking opportunity for advancement in the manufacturing industry, and can leverage the R&D tax credit to save more than 15% of eligible qualified spending as they attempt to develop or improve software or sensors or other IoT components,” said Rick Schreiber, partner and national leader of BDO’s manufacturing and distribution practice.

“They have some catching up to do in order to fully capitalize on IoT’s potential. Shoring up security in the wake of newly connected systems and products and taking advantage of the newly permanent R&D credit are critical steps.”

Just 17 percent of manufacturers said they were planning to claim tax credits and incentives for their IoT investments. For those manufacturers not planning to claim credits and incentives for IoT investments, concern about the associated costs is identified by only 11 percent of respondents, while nearly half (45 percent) of manufacturers say the reason for not claiming the credits is based on a lack of documentation.

“Manufacturers that attempt to develop or improve software or sensors or other IoT components can leverage the R&D tax credit, which can equal more than 15 percent of eligible qualified spending,” says Chris Bard, tax partner and R&D practice leader at BDO. “And although documentation is useful to support these credits, courts have ruled repeatedly that oral testimony can be used to support them as well.”

Smaller manufacturers also stand to benefit. For taxable years beginning after 2015, smaller companies may now claim credits against their alternative minimum tax and up to \$250,000 of their payroll taxes. “This greatly expands the range of the credit’s benefit,” Bard says.

“Now start-up companies and others, who in the past couldn’t use the credit because it could be used only against regular income tax liability, can benefit from it.”

The MPI Internet of Things Study, sponsored by BDO, evaluated the readiness of U.S. manufacturers to incorporate smart devices and embedded intelligence within their plants and into their companies’ products.

The study was conducted by The MPI Group and sponsored by BDO. In August and September 2015, 350 manufacturers participated in the study.