

WHAT IS THE R&D TAX CREDIT?

The Research and Development tax credit is a federal tax incentive that rewards taxpayers for investing in U.S.-based research activities. Businesses that can take advantage of the credit are those that uncover new, improved, or

technologically advanced products, processes, principles, methodologies, or materials. Your business may also be able to use the credit if you've invested time, money, and resources toward improving your products and processes.

HOW IT WORKS

The R&D credit applies to expenses for Qualified Research Activities done in the U.S. It's mostly a wage-based credit composed of the following Qualified Research Expenses:

- Internal wages paid to employees for qualified services, and staff members can include those performing the science as well as those directly supporting and supervising these individuals.
- Supplies used in the R&D process
- Contract research expenses, which is when someone other than the taxpayer's employee performs a QRA on behalf of the taxpayer, regardless of the success of the research
- Basic research payments to qualified educational institutions and various scientific research organizations



FOR ACTIVITIES TO QUALIFY, taxpayers must show that they meet the following four tests:

- 1** The activities **must rely on a hard science**, such as engineering, computer science, biological science, or physical science.
- 2** The activities **must relate to developing new or improved functionality, performance, reliability, or quality features** of a structure or component of a structure, including product or process designs that a firm develops for its clients.

- 3** Technological **uncertainty must exist at the outset of the activities**. Uncertainty exists if the information available at the project's outset doesn't establish the capability or methodology for developing or improving the business component or its appropriate design.
- 4** You have to **conduct a process of experimentation** (e.g., an iterative testing process) to eliminate the technological uncertainty. This includes assessing a design through modeling or computational analysis and experimenting with a material's durability or longevity.

THE VALUE

The R&D tax credit is worth about 6.5% of qualified activities. Making sure you correctly calculate and properly document the credit is critical because it can significantly lower your taxes and increase your cash flow.

Small businesses with less than \$50 million in gross receipts can now take the credit against

their alternative minimum tax. Also, startup businesses with gross receipts of less than \$5 million can now take the R&D tax credit against their payroll taxes. That essentially makes it a refundable credit for up to five years.

Many states also offer the R&D tax credit, and you can also claim the credit for previous years.



POTENTIAL BENEFICIARIES

Below are some sample industries:

- AEROSPACE & DEFENSE
- ELECTRONICS
- ARCHITECTURE & ENGINEERING
- FOOD SCIENCE
- AGRICULTURE
- MANUFACTURING
- AUTOMOTIVE
- PHARMACEUTICALS
- BIOTECHNOLOGY & BIOENGINEERING
- SOFTWARE DEVELOPMENT
- CHEMICALS
- TELECOMMUNICATIONS

HOW WE CAN HELP

If you'd like more information about the R&D tax credit, call or email your Casey Peterson, LTD financial professional. We'll introduce you to our ICS contact, Director of Client Relations, Steve Ruda.

ICS Tax can prepare all necessary documentation to support the credit, calculate the amount of the credit, and draft necessary compliance. If you're ever audited, they'll also help support your credit.

EMAIL stever@ics-tax.com

PHONE 605-929-6942