

# One of the Most Lucrative Tax Credits Available FOR BUSINESSES

## History

In a temporary effort to boost the economy in 1981, the federal government sought to use the passage of the research and Experimentation tax credit to reward businesses for investing in research.

With the rapid changes in technology in the past decades, companies across multiple industries have seen increasing challenges to constantly innovate their products or processes to compete across a global economy.

## Changing the Path

Recognizing the need to create jobs domestically and maintain global economic competitiveness, congress has extended the R & D tax credits more than a dozen times over subsequent years, finally making them permanent with the passage of the PATH Act of 2015. In addition to becoming permanent, the Protecting Americans from Tax Hikes act expanded R & D credit provisions to start-ups and small businesses.

The R & D tax credit is now available to any U.S. business that spends time and resources on new development, improvements, or technological advancements in effort to improve upon its products or processes. The credit can also be available to American Business owners that have improved upon the performance, functionality, reliability or quality of existing products or trade processes.

The PATH ACT is now a permanent fixture of the United States tax code, and one of the most lucrative credits available to businesses of all sizes and industries.

## Who Qualifies?

**The R&D tax credit may apply to any taxpayer that incurs expenses for performing Qualified Research Activities (QRA) on U.S. soil.**

The credit is a percentage of qualified research expenses (QRE) above a base amount established by the IRS in a four-part test.

1. Elimination of Uncertainty
2. Process of Experimentation
3. Technological in Nature
4. Qualified Purpose

## Qualified Research Activities

- » Developing or designing new products, processes, or formulas
- » Developing a new manufacturing process
- » Developing prototypes or models
- » Developing internal software solutions
- » Developing or improving software technologies
- » Testing new materials or concepts
- » Streamlining internal processes
- » Maintaining laboratory equipment
- » Documenting research activities
- » Designing or evaluating product alternatives
- » Certification testing
- » Environmental testing

# About the R&D Tax Credit FOR BUSINESSES

Section 41 of the Internal Revenue Code lays out the rules and regulations surrounding the R&D tax credit.

Many misconceptions surrounding the new regulations are that it is difficult to apply for the credits and that it is restricted to a small group of industries. **This could not be further from the truth.**

The goal of the PATH act is to encourage innovation in businesses across the United States. The U.S. tax court and states alike have ruled in favor of business activities that make jobs faster and more efficient. This could be anybody from a contractor who uses new materials to create green, energy efficient improvements, to a manufacturer improving production processes through investment in new technology.

## Pathway to the Act

### 2001

The regulation change to eliminate the "Discovery Rule" from R&D tax credit qualification requirements now benefits businesses as it alters the activities that now qualify for the credit.

### 2014

Controlled group credits allocation amongst members was changed with the finalization for Sect 174; temporary regulations also allow ASC on amended returns for years a taxpayer had not previously claimed a credit.

### 2016

The R&D Tax Credit remains one of the most lucrative tax incentives for U.S. businesses after tax reform legislation is implemented.

### 1981

Original enactment of the federal R&D tax credit; a credit developed to reward businesses for investing in their research. Activities qualifying for the credit were limited to creating or producing a product or process that was new to the world. The definition of the research was further defined under Sect. 174 (Discovery Rule); due to this definition, only a small percentage of companies were able to qualify.

### 2006

The ASC, Alternative Simplified Credit, is enacted to provide additional flexibility to businesses when calculating credit amounts.

### 2015

The R&D tax credit became permanent after the passing of the Protecting American from Tax Hikes Act (PATH Act).

The Alternative Minimum Tax (AMT) turn off was enacted for businesses with \$50 million or less in gross receipts allowing for more businesses to take advantage of the R&D tax credit.

### 2018

Tax reform legislation is implemented, and the R&D Tax Credit remains one of the most lucrative tax incentives for U.S. businesses.

## Expanding the Tax Benefit

**As of January 1, 2016 Eligible Small Businesses (ESBs) can use the credit to offset the Alternative Minimum Tax (AMT).**

An ESB can be a non-publicly traded corporation, partnership, or sole proprietorship with annual revenues under \$50 million for the three tax years prior to the current year and credits can be retroactively captured subject to special rules under section 448(c)(3).

More companies than ever are able to take advantage of the R & D tax credit because of the AMT (Alternative Minimum Tax) which is a simplified method of used to compute Research and Development tax credits. Companies using the ASC computation may be able to claim a credit even if they do not qualify for the traditional tax credit claims.

## How much have you overpaid?

The biggest reason for small businesses not taking advantage of the R&D tax credit is self-censoring. Prior to the PATH act, the traditional method of calculating and filing for the credit was a process that was not worth the effort for small business owners and their tax advisors alike. Now, thanks to the new broadened terms and calculation methods, along with the ability to lookback 3 years and amend returns, business owners are putting substantial dollars back into their business.

**By going through the Business Qualification Process with your consultant and by providing our CPAs with pertinent tax filing information in accordance with your business structure we can conduct a feasibility study [free of charge](#) to see if your business qualifies.**



**Interested in learning more? Contact us today!**

704-351-1977 | [rick.aiken@lifetimeadvisors.com](mailto:rick.aiken@lifetimeadvisors.com)

## Qualifying Industries

Aerospace	Chemical	Food Processors	Package Design
Agriculture	Commercial Bakeries	Food Products	Pharmaceuticals
Animal Hospitals	Construction	Furniture Makers	Plastic Injection Molding
Apparel	Dental Practices	HVAC	Real Estate Agencies
Architecture	Distribution	Insurance	Research and Development Facilities
Automotive	Electricians	Jewelry Design	Staffing Agencies
Biotech/Life Sciences	Electronics	Job Shops	Telecommunications
Breweries/Wineries	Energy	Medical Devices	Tool and Die
Civil Contractors	Fabricators	Oil and Gas Refineries	Transportation
Coatings and Adhesives	Farming		

# FAQS FOR THE R&D TAX CREDIT

## Why haven't I heard of this?

Many companies were not eligible to receive a current benefit until the PATH act was passed in 2015. And once passed, not a lot of companies heard about it. Even companies that did know about it failed to pursue it, due to complexity and time constraints. We offer a solution that makes it easier and less time consuming.

## This sounds too good to be true. Is it?

No! The R&D tax credit was created by the U.S. government to give funds back to companies who spend money on technology-based innovation. Fortune 500 companies have been taking advantage of the R & D tax credit for decades, and now with recent changes, more small to medium size businesses are claiming the credit. But even with the increase in claims, only 5% of companies that qualify for the R & D Tax credit are taking the time to do so.

## What's the benefit?

Simply put, the R&D tax credit creates money that goes back in your company's pocket to fuel further innovation and growth. Estimate your R&D credit with our quick calculator.

Typically 7-10% of qualified expenditures, the credit can be used to offset:

Income taxes if you are in a taxable position.

Alternative Minimum Tax (AMT) if you have less than \$50 million in average revenue for the 3 preceding years from the tax year, and you owe AMT in the current year.

Employer portion of social security taxes up to \$250,000 each fiscal year, allowing qualified small businesses to receive the benefit regardless of profitability.

## What's the process like?

It takes a fraction of the time to pursue the R&D tax credit compared to traditional R&D studies.

## Does my company need to be in a specific industry?

No. Companies in many industries qualify.

## Do I receive money once or every year?

You receive money every year you are eligible.

## Is this the same thing as the GAAP accounting for R&D?

No. The purpose of GAAP is to make sure financial reporting is consistent and transparent. The R&D tax credit rewards companies for innovation.

## How do I know if my company does R&D?

If your company has wage or other expenses related to the development of new or improved products, you may have qualifying R&D activities.

## I don't think my company can qualify.

With the changes throughout the years to the qualification rules, more companies than ever before can now take advantage of the credit.

## I have a CPA, why haven't I heard of this?

Even though the credit has been around since 1981, the credit has evolved over the years, with many companies not being able to take advantage of the tax incentive until the changes in 2015.

Many CPA's do not specialize in the R&D tax credit. There are over five million words in the tax codes.



Rick Aiken - Strategic Advisor  
704-351-1977  
rick.aiken@lifetimeadvisors.com