



BUSINESS TAX INCENTIVES

PROGRAM OVERVIEW

BUILDING FOR NOW, ADVISING FOR LIFE.



RESEARCH & DEVELOPMENT TAX CREDIT



BIG HELP FOR SMALL BUSINESS



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. Business owners small and large understand the expensive and time – consuming risks that drastic innovations pose and thus, often failing – yielding no financial return on investment.

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 could also be available to American Business owners that have improved upon the performance, functionality, reliability, or quality of existing products or trade processes.



THE R&D TAX CREDIT



BIG HELP FOR AMERICAN BUSINESS

ABOUT THE CREDIT

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).

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 couldn't 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.



CHANGES IN 2023

In 2022, Congress passed and President Biden signed into law the Consolidated Appropriations Act of 2023. The 2017 Tax Cuts and Jobs Act allowed for a business to immediately deduct Section 174 expenses. Not all Section 174 expenses qualify as Section 41 expenses but all Section 41 expenses qualify as Section 174 expenses.

With the passage of this new law, Section 174 expenditures will have to be amortized over a five-year period.

Applying for the R&D tax credit will not offset 100% of the amortization requirement, as only R&D costs exceeding a baseline each year will qualify. Therefore, applying for the R&D credit will soften the blow of the amortization requirement, but will not eliminate the requirement to amortize.

QUALIFICATION



MORE COMPANIES QUALIFY THAN YOU THINK

WHO QUALIFIES?

Industries ranging from software development, to aerospace, tech and biopharmaceuticals can take advantage as there are no restrictions on the type of industry.

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 (QRA)

- » 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

QUALIFIED RESEARCH EXPENSES (QRE)

Wages paid to employees for qualified services

This includes amounts considered to be wages for federal income tax withholding purposes.

Basic research payments made to qualified educational institutions and various scientific research organizations

Allowable up to 75% of the actual cost.

Supplies used and consumed in the R&D process

This may include any property not subject to depreciation.

Third-party contract expenses for performing QRAs on behalf of the taxpayer

Regardless of the success of the research, allowable up to 65% of the actual cost, provided you retain the rights and risks

Amended claims now require the following for each business component:

- Identify all research activities performed
- Identify all individuals who performed each research activity
- Identify all the information each individual sought to discover

CREDIT PROJECTION REPORT



QUICK BUSINESS QUALIFICATION PROCESS

HOW MUCH HAVE YOU OVERPAID?

The biggest reason for small businesses not taking advantage of the R&D tax credit is selfcensoring. Prior to the PATH act, the traditional method of calculating and filing for the credit was a process that wasn't 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 three 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?

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INDUSTRIES THAT HAVE QUALIFIED:

- » Aerospace
- » Agriculture
- » Apparel
- » Architecture
- » Automotive
- » Biotech / Life Sciences
- » Breweries / Wineries
- » Coatings and Adhesives
- » Chemical
- » Commercial Bakeries
- » Construction
- » Distribution
- » Electronics
- » Energy
- » Fabricators
- » Food Processors
- » Food Products
- » Furniture Makers
- » HVAC
- » Insurance
- » Jewelry Design
- » Job Shops
- » Medical Devices
- » Oil and Gas Refineries
- » Package Design
- » Pharmaceuticals
- » Plastic Injection Molding
- » Research and Development Facilities
- » Telecommunications
- » Tool and Die
- » Transportation