



THE RESEARCH & DEVELOPMENT TAX CREDIT

QUALIFIED INDUSTRIES

Below is a sampling of some of the industries that qualify for R&D Tax Credits. There are numerous other industries that have opportunities. :

- Aerospace/Defense
- Agriculture
- Apparel & Textiles
- Architecture and Engineering/Construction
- Automotive
- Biotech/Life Sciences
- Chemicals/Plastics
- Consumer Products
- Electronics
- Fintech
- Food
- Government Contractors
- Manufacturing
- Oil & Gas
- Software/Technology
- Telecommunications
- Wineries/Breweries/Spirits

The Research & Development (R&D) Tax Credit is a permanent credit made available to help companies reinvest in their future. R&D incentives provide significant tax benefits at the federal and state levels by reducing current and future years' tax liabilities. They can equal up to 10 percent of annual R&D qualifying expenses at the federal level and even more when state benefits are considered. R&D credits are dollar for dollar reductions in tax liability.

Many companies are not aware their daily operations could qualify for a reduction of their income tax liability. Opportunities to take advantage of the R&D Tax Credit have grown significantly over recent years. If your company develops new products or processes or enhances existing products or processes, you likely qualify for the R&D Tax Credit.

DOES YOUR RESEARCH QUALIFY? UNDERSTANDING THE FOUR PART TEST

1: DO YOU HAVE A NEW OR IMPROVED BUSINESS COMPONENT FOR A PERMITTED PURPOSE?

The purpose of your efforts must be to create a new business component or improve on an existing one by enhancing its functionality, performance, reliability, quality, or durability. A 'business component' is any product, process, technique, invention, formula, or software that you intend to hold for sale, lease, license, or use in your business.

Under certain circumstances, the activity can be undertaken as a result of a contract from a commercial or government agency.

2: IS YOUR ACTIVITY TECHNOLOGICAL IN NATURE?

The process used must fundamentally rely on principles of the physical or biological sciences, engineering, or computer science.

You may employ existing technologies and may rely on existing principles of the physical or biological sciences, engineering, or computer science to satisfy this requirement.

3: WAS THERE AN ELIMINATION OF UNCERTAINTY DURING THE PROCESS?

'Uncertainty' means that the information available at the outset does not establish the capability and/or feasibility of the product or process, the method of its development or improvement, or the appropriateness of the business component's design.

4: DID YOU EMPLOY THE SCIENTIFIC METHOD? (PROCESS OF EXPERIMENTATION)

Was there any testing, trial and error or prototypes created? Were you able to prove or disprove the success of the activity?

The outcome of the experimentation does not have to prove successful to be qualified as R&D activity.

ARE YOU GETTING THE R&D TAX CREDITS YOU QUALIFY FOR?

Eligible expenses include the following:

Wages

Innovators, direct supervisors, developers and support personnel - salaries for your dedicated, in-house R&D team may make up most expenses available for the credit. **100% of allocable expenses are included in the credit calculation.**

Supplies

Prototypes, testing materials, and tangible property other than land, improvements, and property subject to depreciation make up your supply expense. Travel, shipping, and royalties are excluded. **100% of allocable supply costs are included in the calculation.**

Contract Research

Qualified research by a contract laborer (1099) and/or by a third party on your behalf is included in the credit calculation. You must have rights to the research results and compensate the contract laborer or third party regardless of outcome (economic risk). **65% of allocable contract research costs are included in the credit calculation.**

Basic Research

Fundamental research by qualified nonprofits and institutions that focus on evaluating theories and hypotheses regardless of application, qualify as basic research. **75% of allocable basic research payments are included in the credit calculation.**

DOCUMENTATION REQUIREMENTS

Substantial documentation is a mandatory component of claiming an R&D Tax Credit. Samples of the types of documentation required are payroll records, project lists, project memos, labor detail summaries, client contracts, whitepapers, general ledgers, etc.

Documentation should substantiate the amount of credit, provide nexus between the expense amounts and the activities as well as identify and demonstrate the qualified nature of activities.

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