



RESEARCH CREDITS & INCENTIVES

STARTUP COMPANIES CAN NOW BENEFIT FROM THE R&D TAX CREDIT

If you're a startup company with annual gross receipts of less than \$5 million, you can reduce your labor costs by up to \$250,000.

The federal R&D tax credit is a dollar-for-dollar reduction of federal income tax liability for qualified expenditures incident to the development or improvement of a product, process, software, formula or invention.

Historically, a company had to incur taxable income to utilize the R&D tax credit. However, recent legislation allows startup companies who do not yet generate federal income tax liabilities to utilize the credit against their payroll taxes, provided the companies perform "qualified research."



What is it?

The Federal Credit for Increasing Research Activities, aka "The R&D tax credit."



What's the value?

Potential reductions in U.S. labor costs for start-up companies ("qualified small businesses") of up to 6.2 percent or \$250,000.



Who qualifies?

The tax code defines "qualified small businesses" as a business realizing less than \$5 million in revenue and being less than five years removed from their first year of attaining revenues.



How are the savings realized?

Effective for the 2016 tax year, qualified small businesses can claim a R&D tax credit on an original federal return and, apply those credits against the employers portion of OASDI tax (6.2 percent).

How?

1. Assess R&D Credit eligibility
2. File federal tax returns ASAP

Note: the payroll tax offset can ONLY be taken on a timely filed return.

3. Include Form 6765 claiming the R&D tax credit

Designate the portion of your R&D tax credit to be applied against payroll tax (max \$250,000 per year)

4. Starting the following quarter, the Company files its quarterly payroll tax return (Form 941)

Attach Form 8974 to Form 941

5. Repeat this process until credits are fully utilized

An Example

An early-stage information technology company has approximately \$2,250,000 in annual payroll expenses of which \$1,000,000 consists of wages paid for software development. If the company meets the definition of a qualified small business, it should qualify for approximately \$100,000 in federal R&D tax credits. Assuming the company has no tax liabilities to offset, it can apply the R&D credits against the OASDI portion of its payroll tax (\$139,500, or 6.2 percent of wages), generating immediate cash recoveries.

The below table displays the potential benefit and cash flows with and without the credits:

	With R&D Tax Credit	Without R&D Tax Credit
Total Payroll	\$2,250,000	
R&D Qualified Wages	\$1,000,000	
Annual OASDI Tax	\$139,500	
R&D Credits	\$100,000	
Q2 Payroll Tax Liability (including OASDI)	\$8,156	\$43,031
Q3 Payroll Tax Liability	\$8,156	\$43,031
Q4 Payroll Tax Liability	\$12,781	\$43,031
Total Cash Savings Realized	\$100,000	\$0

Next Steps

In order to get as much value as soon as possible, companies that are potentially eligible should begin preparing IMMEDIATELY to take advantage of the benefit. These opportunities to realize savings via federal tax credits do not come along often.

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