



RESEARCH & DEVELOPMENT (R&D) TAX CREDITS

QUALIFIED INDUSTRIES

Some of the industries that qualify for the R&D tax credit include, but are not limited to:



Aerospace



Apparel & Textiles



Automotive



Chemicals & Plastics



Consumer Products



Food



Life Science



Manufacturing



Oil & Gas



Software

ARE YOU GETTING THE R&D TAX CREDITS YOU DESERVE?

The research & development (R&D) tax credit is a permanent credit made available to provide significant tax benefits at the federal, state and local level. Credits can equal up to 10 percent of annual R&D costs at the federal level and even more when state benefits are considered. Many companies aren't aware their daily operations could qualify for a reduction of their income tax liability.

DOES YOUR RESEARCH QUALIFY? TAKE THE FOUR-PART TEST.

#1: ARE YOU DEVELOPING SOMETHING NEW OR IMPROVED?

The purpose of your efforts must be to create a new business component, or improve one by trying to enhance its functionality, quality, performance or durability.

#2: ARE YOUR ACTIVITIES GROUNDED IN A HARD SCIENCE?

The process of R&D must rely on the hard sciences, such as engineering, chemistry, physics, biology or computer science.

#3: DID YOU ENCOUNTER TECHNICAL UNCERTAINTY?

Uncertainty means the information available at the outset does not establish the capability of the product or process, the method of its development or improvement, or the appropriateness of the components design.

#4: WAS THERE A PROCESS OF EXPERIMENTATION?

Formulate a hypothesis, test it and arrive at a conclusion. This may be accomplished through modeling, simulation or systematic trial and error.

WHAT EXPENSES QUALIFY FOR R&D TAX CREDITS?

WAGES – Innovators, direct supervisors, and support personnel

SUPPLIES – Prototypes, testing materials, and tangible property

CONTRACT RESEARCH – Qualified research by contract laborers and/or third parties

AS YOUR COMPANY GROWS...

Thanks to new legislation, using your R&D credit is easier than ever. Below are the various ways the credit can offset tax liability and increase cash flow. Whether you are a startup company with no income, or a very large and profitable corporation, there's a way to realize immediate benefits from claiming your R&D credit.

\$0 - \$5 MILLION IN REVENUE

A new election allows qualified small businesses (businesses with less than \$5 million in revenue and less than five years of revenue) to apply up to \$250,000 of their R&D tax credit against their OASDI portion of payroll tax.

Case Study: An early stage technology company has \$1,500,000 in annual payroll. \$1,000,000 of payroll is qualifying R&D wages. They qualify for a \$100,000 federal R&D tax credit. They can use the entire \$100,000 toward their portion of OASDI payroll tax thus increasing cash flow by that amount.

LESS THAN \$50 MILLION IN REVENUE

Beginning in 2016, eligible small businesses (private companies with \$50 million or less in average gross receipts over the prior three years) can claim the R&D credit against AMT. This has removed a significant obstacle previously associated with utilizing R&D credits. Corporations and shareholders can now offset up to approximately 75 percent of their total tax liability.

Case Study: A qualifying company generated a \$110,000 R&D credit and the single shareholder, Sarah, owes \$190,000 in tax. The credit is a dollar for dollar reduction of tax and has thus reduced Sarah's tax liability to \$80,000.

GREATER THAN \$50 MILLION IN REVENUE

For companies with average gross receipts of greater than \$50,000 for the three prior years, the credit will reduce tax liability to the company or shareholder established minimum.

Case Study: A \$200 million-dollar manufacturer generates a \$500,000 credit. The two shareholders of the company split the credit based on their ownership percentages. Shareholder A owns 60 percent of the company and receives \$300,000 as his share of the credit. His total tax is \$1,000,000 and his tentative minimum tax is \$600,000. He can use the entirety of his credit to reduce his total tax liability to \$700,000, realizing a \$300,000 tax savings.

ABOUT ALVAREZ & MARSAL TAXAND

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