R&D TAX CREDIT

Research & Development Tax Credit Background

The R&D Credit allows companies, large and small, to claim a dollar for dollar reduction in tax liability for conducting qualified research within the United States, as identified by examining qualifying research activities and expenditures related to employee wages, outside consulting costs, and certain material expenses. Taxpayers may claim credits back three years and carry forward unused credits for up to 20 years.

Basics of The R&D Credit

When individuals think of research and development, they typically imagine a setting involving test tubes and lab coats. However, when it comes to the tax code, the definition of what may qualify as research and development is more expansive, and includes any work performed that involves design or development to create a new or improved business component.

The following four-part test outlines the requirements necessary for claiming the R&D Credit.

- New or Improved Business
- Process of Experimentation
- Elimination of Uncertainty
- Technological in Nature

Permanent - In December of 2015, Congress passed the PATH Act that made the R&D credit a permanent part of the tax code. This was a big win for small and medium sized businesses. Companies can now forecast and budget accordingly knowing the credit will be available for years to come.

Payroll Tax - One of the enhancements to the R&D credit was the ability to offset payroll tax for startup companies. Qualified Small Businesses (less than $5 million in gross receipts and with gross receipts of 5 years or less) can use the R&D credits. They have now applied the same rules with businesses in 2016 going forward.

R&D TAX CREDIT cont.

Architecture - Every architecture project is unique and poses design changes, which is why architecture firms typically spend 60-75% of their time during the conceptual/schematic design phases, design development phase, and construction documents phase. Many architecture firms undertake this activity on a daily basis, but fail to take advantage of the R&D Tax Credit.

What may seem as typical day-to-day design challenges during these phases can qualify as R&D related expenditures, including but not limited to, the following:

- Developing conceptual ideas and designs;
- Developing and designing site features and orientations;
- Developing and designing master plans;
- Developing construction documents;
- Computer-aided design and building information modeling activities;
- Developing new or innovative designs to meet LEED certifications or energy-efficient specifications; and
- Collaboration and evaluation between consultants on means and methods for constructibility.

Manufacturing - The manufacturing industry encompasses a variety of companies from machine shops and product engineering firms to medical and technology companies. Not only does manufacturing include the design and development of new or improved products, but also new or improved processes. In addition to claiming the wages of employees involved in the development of manufacturing processes and products, the material costs associated with certain R&D activities may also be captured toward the credit. Other significant costs can include supplies used in the development of prototypes as well as machines used to improve product performance or process efficiencies.