

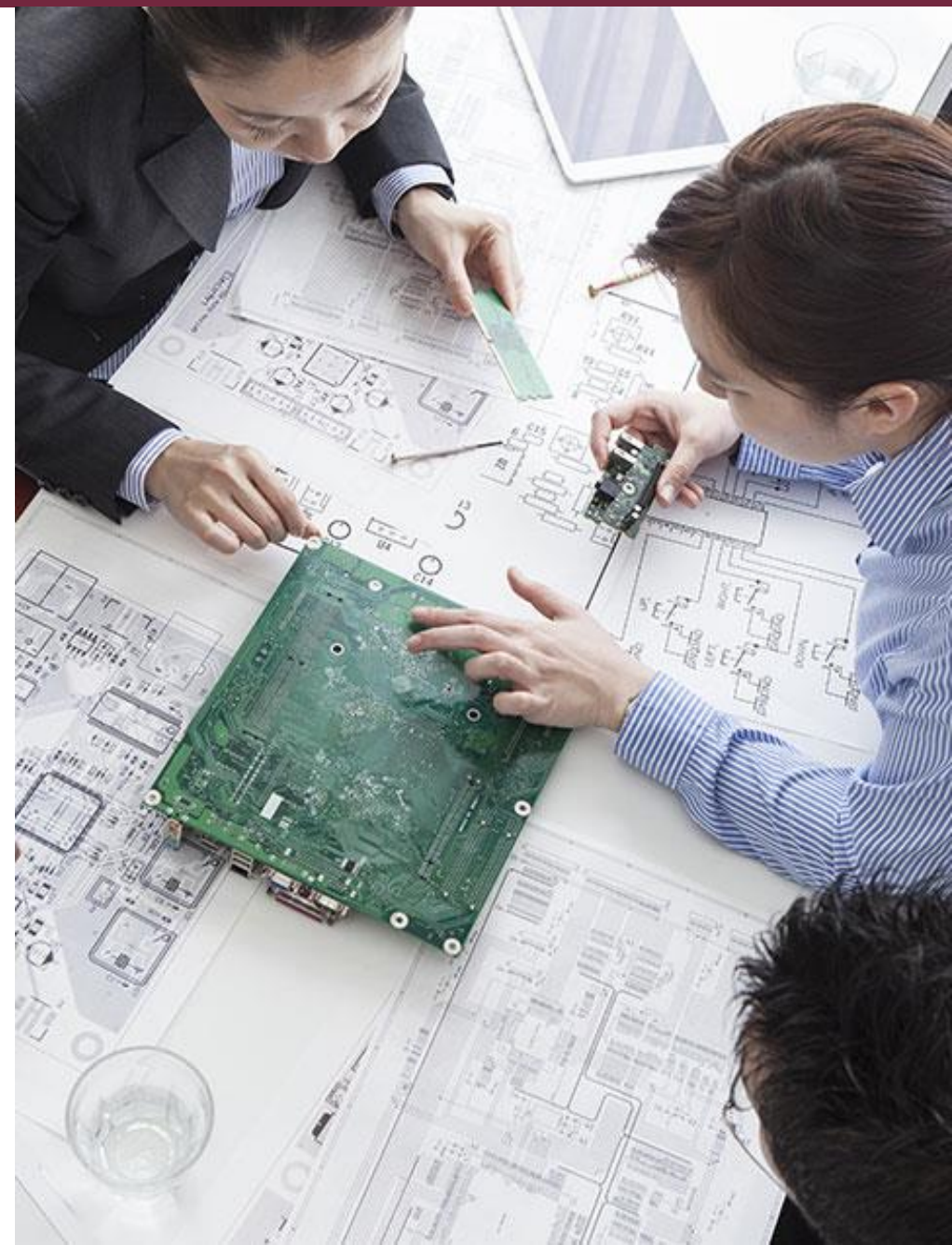


R&D Tax Credit: What Qualifies?



BENEFITS OF THE R&D TAX CREDIT

- Federal benefit typically ranges from 7% to 10% of the qualifying research expenditures
- Dollar-for-Dollar reduction in tax liability
- Increases the Return on Investment
- Lowers the effective tax rate
- Improves earnings per share
- Retroactive Claims (all open years or more if net operating losses)
- General Rule: 1 Year Carryback; 20 Year Carryforward
- S Corps & Partnerships – R&D tax credit flows through to the owners
- Many states offer an R&D tax credit



COMMON INDUSTRIES

- Aerospace
- Apparel
- Architectural & Engineering
- Automotive
- Chemical
- Computer Software
- Equipment
- Food & Beverage
- Hardware Development
- Manufacturing
- Medical
- Pharmaceuticals
- Cosmetics
- Electronics
- Engineering
- Telecommunications
- Tooling, jigs, molds
- Numerous others

Applies Across ALL Industries!!!

FEDERAL R&D CREDITS BY INDUSTRY - ESTIMATED 2023 ALLOCATION

Industry	Credit Amount Estimated 2023	Percentage
Manufacturing	\$ 15.2 billion	61%
Information	\$ 4 billion	16%
Professional, scientific, technical services	\$ 2.5 billion	10%
Wholesale and retail trade	\$ 1.8 billion	7%
Finance and insurance	\$ 500 million	2%
Holding Companies	\$ 249 million	1%
Mining	\$ 249 million	1%
Utilities	\$ 127 million	<1%
Other	\$ 375 million	1.5%
Total	\$ 25 billion	

DETERMINING ELIGIBILITY: THE “FOUR-PART TEST”

01

1. Technological in Nature (§ 41)

The activity performed must fundamentally rely on principles of:

- Physical Science;
- Biological Science;
- Engineering; or
- Computer Science

02

2. Permitted Purpose (§ 41)

The activity must relate to a new/improved business component's:

- Function;
- Performance;
- Reliability; or
- Quality

03

3. Elimination of Uncertainty (§ 174)

The activity must be intended to discover information to eliminate uncertainty concerning the capability, method or design for developing or improving a product or process.

04

4. Process of Experimentation (§ 41)

The taxpayer must engage in an evaluative process designed to identify and evaluate more than one alternative to achieve a result.

For example: modeling, simulation or a systematic trial and error methodology.

WHAT QUALIFIES? QUALIFIED RESEARCH EXPENSES

Wages

- (1) W-2, Box 1; (2) Partnership Earnings subject to SE tax; & (3) Schedule C
- Excludes 401k & pre-tax benefits, and wages used calculating Work Opportunity Credit under §51

Supplies

- Tangible property used or consumed in qualified research activities (i.e., prototypes), excludes:
- (i) Land – acquisition & improvements; & (ii) Depreciable property

Contract Research

- 65% of amounts paid to non-employees for qualified activities
- 75% of amounts paid to certain qualified research consortia
- 100% of amounts paid for energy research to eligible small businesses, universities, and Federal laboratories

WHO QUALIFIES?

Any Employee who:

- Performs qualified activities
- Direct Supervision of other employees who perform qualified activities
- Direct Support of other employees who perform qualified activities
- Direct Supervision & Direct Support need not meet 4-Part Test

Outside Contract Service Providers:

- 65% of amounts paid or incurred for qualified research (paid to any person other than an employee of the taxpayer)

