

RESEARCH & DEVELOPMENT TAX CREDIT STUDY

How to qualify for the R&D tax credit



“Each year many companies miss out on millions of dollars each year by assuming the credit is reserved for high-tech, pharmaceutical companies, and Fortune 500 brands with dedicated research scientists.

This is not true, and there is a good chance your company can qualify.”

The research and development (R&D) tax credit (officially titled, “Credit for Increasing Research Activities”) was created by the IRS to incentivize and reward innovation in the United States. This credit is a dollar-for-dollar reduction to your tax liability, and payroll tax liability in some cases, and can amount to large cash tax savings, yet it is often overlooked by both small and medium-size companies.

Despite the broad definition of R&D provided by the IRS, companies miss out each year by assuming the credit is limited to pharmaceutical, high-tech, and large companies with dedicated scientists and developers. This is absolutely not true, and there is a good chance that your company can qualify.

INDUSTRIES WE WORK WITH

Calvetti Ferguson has helped companies from a variety of industries capture this lucrative tax credit. Industries we have worked with include, but are not limited to:

- Oil and Gas
- Software/Technology
- Agriculture
- Manufacturing
- Natural resources
- Engineering
- Construction
- Pharmaceutical
- MEP Contractors
- Food and Beverage
- Architecture

HOW CAN YOU QUALIFY?

In order to qualify, activities must satisfy each requirement of a four-part test:

- **Permitted purpose:** The activity is intended to develop or improve an existing business component's functionality, reliability, quality, or performance. A business component is any product, manufacturing/assembly process, computer software, technique, formula, or invention held for sale, lease or license, or used in the company's trade or business
- **Technological in nature:** The activity must rely on the principals of a hard science, i.e., engineering, physics, biology, chemistry, computer science, etc. as opposed to a social science.
- **Technical uncertainty:** The taxpayer must encounter technical uncertainties or unknowns related to the appropriate design, methodology or capability of achieving the desired outcome; and,
- **Process of experimentation:** In an attempt to eliminate the technical uncertainties, a taxpayer must undertake an iterative process to evaluate alternatives through prototyping, modeling, simulation, systematic trial and error, etc.

Expenses that qualify for the credit include employee wages (those performing, directly supporting or supervising qualified activities); domestic third party contractors; materials used or consumed in the development process; and, computer leasing costs. Up to 10% of these qualified research expenses can be returned to you via this tax credit, are available to any open tax year, and unused research credits can be carried forward for up to 20 years. Additionally, the research credit is available in most states, and tends to follow the same criteria as the federal research credit.

If you are interested in learning more, please don't hesitate to contact us using the link below. The initial evaluation to evaluate if you qualify is complimentary to ensure the credit makes sense for you.

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