

Research & Development (R&D) Tax Credits

The Federal R&D Tax Credit is a general business credit established in 1981 and made permanent in 2015.

Businesses can earn tax credits on qualifying research & development activities.

Businesses may generate a federal, dollar for dollar, tax credit typically averaging 6% – 8% of certain U.S. based costs tied to development activities, including wages, contractor expenses, and supplies.

Typical Qualifying Industries



Software*



Manufacturing



Biotechnology



Pharmaceutical

Typical Qualifying Activities



Product



Manufacturing
Process



Software



Invention



Technique



Formula



May be monetized by:

- Regular tax liability for all businesses.
- Payroll Tax (Employers social security portion of FICA) for businesses in their first 5 years of generating gross receipts AND, gross receipts of less than \$5 million/year. (Up to \$500,000/yr).
- May be carried forward up to 20 years.
- Retrospective assessment of previous filed (not amended) tax returns (past 3 years).

Determining eligibility for R&D Tax Credits

Research that satisfies a statutory “**Four-Part Test**” qualifies for the federal tax credit

01

Permitted Purpose

The activity must relate to the development or improvement of either the **Functionality, Performance, Reliability, or Quality** of a new and improved business component:

- **Product**
- **Process**
- **Software**
- **Formula**
- **Technique and/or**
- **Invention**

02

Technological in Nature

The activity performed must fundamentally **rely on principles of:**

- **Physical or Biological Science,**
- **Engineering, and/or**
- **Computer Science**

03

Elimination of Uncertainty

The activity must be intended to discover information to **eliminate uncertainty** concerning the:

- **Capability,**
- **Method, and/or**
- **Design**

04

Process of Experimentation

The activity must be evaluated or tested in some method, such as:

- **Modeling**
- **Simulation**
- **Trial and error**
- **Conceptualization**

