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RESEARCH AND DEVELOPMENT (R&D) TAX CREDIT

WHAT IS THE R&D TAX CREDIT?

The Research and Development tax credit is a government-sponsored tax incentive that rewards companies for conducting R&D in the United States. It provides a dollar-for-dollar credit against income taxes or payroll taxes for eligible companies.

WHAT QUALIFIES AS R&D?

Efforts to make a new, lighter, stronger, cheaper, more reliable, more precise, more economical, and/or more versatile product or process.

- ► Does not require test tubes or white lab coats
- ► Research does not need to be successful

BENEFITS OF THE R&D TAX CREDIT

- An underutilized tax benefit for many small and mid-sized companies.
- Can reduce current and future federal and state taxes.
- Dollar-for-dollar credit against taxes owed or taxes paid.
- Generally, the credit equates to approximately 6-8.5% of qualified research expenditures.
- Can offset AMT.
- Payroll tax credit to offset employer portion of FICA taxes for eligible companies.
- A credit may be eligible for prior years, even if the return has already been filed.
- Can help improve cash flow.
- Tax credits may carry forward 20 years.
- Recent tax laws are taxpayer-friendly and bring additional benefits.
- Many states offer a state R&D tax credit in addition to the Federal credit.

FOR MORE INFORMATION

Megan Morris, CPA
mmorris@LumsdenCPA.com

Kristin Re', CPA
kre@LumsdenCPA.com

THE FOUR-PART TEST

The four-part test can help you determine if your company's activities qualify for the Research and Development (R&D) tax credit.

1 TECHNOLOGICAL IN NATURE

The activity performed must fundamentally rely on principles of the sciences:

a. Physics
b. Biology
c. Engineering
d. Computer Science
e. Chemistry

2 PERMITTED PURPOSE

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

a. Function
b. Performance
c. Reliability
d. Quality

3 TECHNICAL UNCERTAINTY

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.

4 PROCESS OF EXPERIMENTATION

There must be a process of experimentation that considers more than one alternative to achieve a result (ex - modeling, simulation, or trial and error).

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