

ANDERS STARTUP AND ENTREPRENEURIAL SERVICES

RESEARCH AND DEVELOPMENT (R&D) TAX CREDIT CHEAT SHEET

Research and Development (R&D) tax credits can be valuable for companies who incur R&D costs. Consulting an advisor who specializes in servicing startup companies is always suggested, but this cheat sheet will help get you started.

WHAT IS THE R&D TAX CREDIT?

The R&D (Experimentation) Tax Credit is a general business tax credit available to companies who incur R&D costs in the United States. The credit is generally calculated based on a percentage of qualified R&D costs incurred during the year. It's important to claim these credits even if you don't think you can benefit this year. Any unused credit can be carried forward for 20 years until it is completely utilized.

NEW BENEFIT FOR STARTUPS

Starting in 2016, startup companies benefit as the R&D tax credit can now be applied against an employer's payroll tax liability. To qualify, the startup company must be within their first five years of operations and have less than \$5 million of revenue. The annual cap on the amount of payroll tax liability that can be offset is \$250,000.

WHAT QUALIFIES?

There are a wide variety of companies/industries that qualify for the credit. Some examples include:

- Companies who continually manufacture/ research/engineer new processes and products
- Businesses designing and developing product alternatives and more efficient designs
- Companies improving techniques, formulas, inventions, and software
- Businesses that employ engineers, scientists, software programmers, etc.
- Software development companies and contractors

As of 2016, the R&D tax credit can now be applied against an employer's payroll tax liability.

Qualified R&D expenses may include wages and supplies. Both in-house and subcontracted R&D expenses can be used to figure the credit. However, certain subcontracted expenses yield less credit than others. An Anders advisor can help in choosing a research contractor.

HOW IS THE CREDIT CALCULATED?

There are two different ways to calculate the credit, the regular method and the alternative simplified method. The regular method requires access to detailed historical records. When allowed, the alternative simplified method is easier to calculate and often the preferred method.

Taxpayers are allowed to amend tax returns to utilize the R&D tax credit. As of recently both calculation methods are allowed on amended returns.

Regardless of which method is used, the allowable credit should be calculated by a professional.

MORE TAXPAYERS CAN BENEFIT FROM NOW PERMANENT R&D TAX CREDIT

Until the Protecting Americans from Tax Hikes (PATH) Act went into effect in December 2015, the R&D Tax Credit had always been temporary and part of the annual Tax Extenders Legislation.

The R&D credit is now a permanent tax law, making it easier and more efficient for businesses to do year-end tax planning.

Beginning in 2016, PATH provides businesses with less than \$50 million in gross receipts the ability to claim the R&D Tax Credit against the alternative minimum tax (AMT). This is similar to a provision originally enacted in 2010 which benefits a significant number of closely-held businesses and their owners.

PRIOR YEAR TAX BENEFIT

If the R&D tax credit was overlooked on prior year tax returns, not all is lost. Taxpayers are allowed to amend tax returns to utilize the credit.

Partnering with an experienced professional services firm to make informed business decisions is important. The health of your organization depends on it. We understand the startup industry and offer valuable insights on a wide range of issues that impact the growth and visibility of your organization.

To discuss how to increase the value of your startup or arrange meeting with our team, please contact:

Dave M. Finklang, CPA/CGMA, MBA, 314-655-5566, dfinklang@anderscpa.com
Tracy M Hutter, CPA, 314-655-5568, thutter@anderscpa.com

