



Research and Development (R&D) Credits: Are You Leaving Money on the Table?

APPLICABILITY

PERCEPTION VS. REALITY

R&D CREDITS: A PRIMER

WHAT QUALIFIES?

QRAS: THE 4-PART TEST

QRES

WHAT YEARS CAN I CLAIM?

CALCULATING THE BENEFIT

R&D STUDY LIFE CYCLE

HOW MUCH CREDIT WILL I GET?

TRCG/ARONSON ADVANTAGE

NEXT STEPS / Q&A

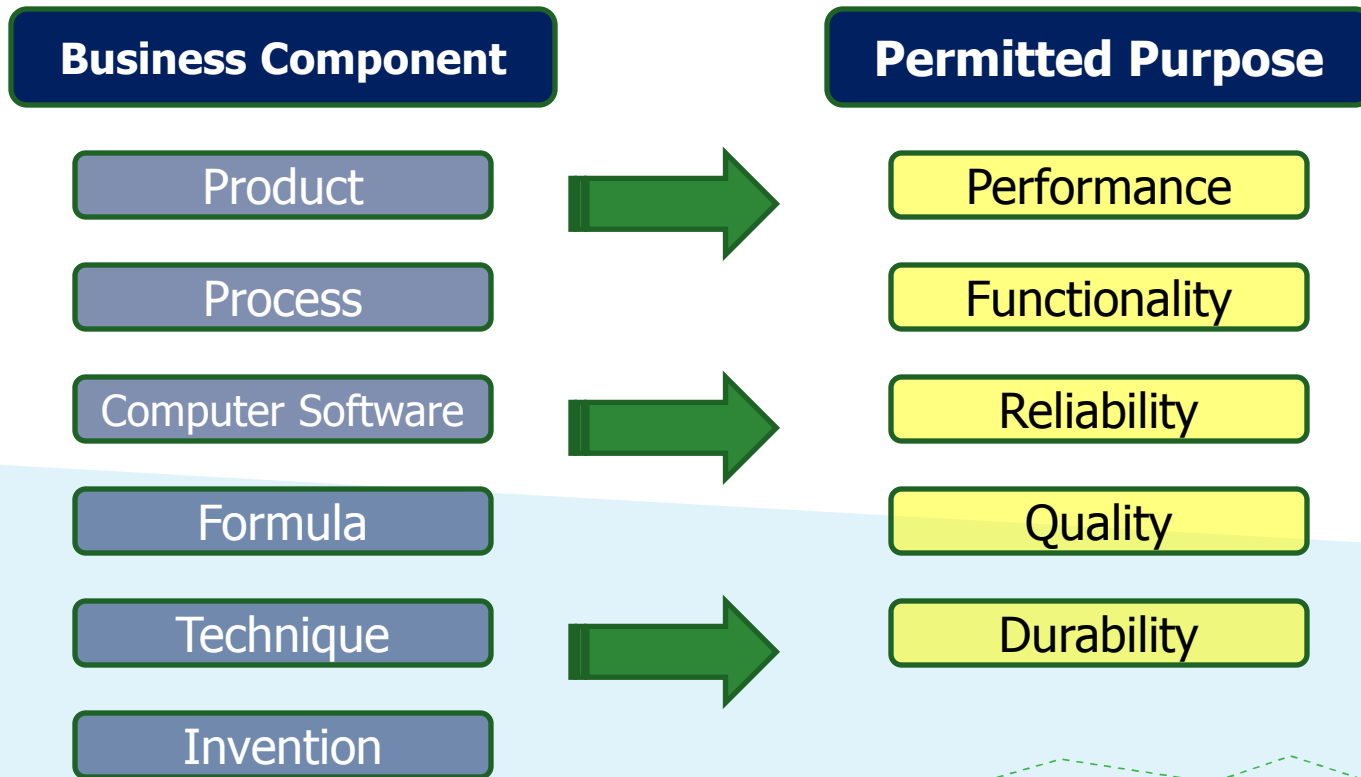
- Clients in one of the following industries:
 - Manufacturing
 - Information Technology
 - Life Sciences
 - Government Contractors
- Clients with operations in “R&D Friendly” States
- Clients who looked into R&D Credits but were “AMT Limited”

Perception	Reality
<i>R&D Credits are only for large companies</i>	While large companies certainly claim the lions' share of R&D Credits, the rules and regs for the R&D credit have been adapted over time to make it easier for small & mid-sized businesses to claim.
<i>R&D Credits are only available for cutting edge new inventions</i>	A company does not have to be inventing something new to qualify for a R&D. Many companies qualify for the R&D Credit without realizing it.
<i>The IRS throws out every R&D Credit claim</i>	Presently, R&D Credits are not officially singled out for any special scrutiny. R&D Credits are the largest general business credit and is a primary tool that many manufacturers and technology companies use to manage their tax liabilities. Solid case law and IRS guidance provides certainty for taxpayers.

- Who Qualifies? Preferred Industries:
 - Manufacturing (70%)
 - Information Technology (11%)
 - Life Sciences (10%)
- Politics of the R&D Credit
 - Approximately \$10BB annual budget for Fed R&D Credits (largest General Business Credit)
 - Companies with more than \$50MM in assets comprise 87% of all R&D Claims
 - The R&D Credit is not a permanent part of the Internal Revenue Code; it often lapses and is re-upped with the “Business Extenders”
 - Current proposals to strengthen the credit and make it permanent

- 4-Part Test for Determining Qualified Research Activity (QRA)
 - **New or Improved Business Component / Permitted Purpose**
 - **Elimination of Uncertainty**
 - **Technological In Nature**
 - **Process of Experimentation**

- Develop a **New or Improved Business Component** for a **Permitted Purpose**:



- The development activities must have been conducted and intended to **Eliminate Uncertainty:**
 - Capability
 - Methodology
 - Final Design

- The research conducted is **Technological in Nature**
 - Must relate to one of the hard sciences:
 - Engineering, Chemistry, Biology, Physics, Metallurgy, Computer Science
- Taxpayer must have undergone a **Process of Experimentation**
 - Process of Experimentation = systematic evaluation of one or more alternatives

- The net R&D Credit will be approximately 6.5-10% of the total Qualified Research Expenses
- 3 types of QREs:
 - Employee Wages
 - Supplies
 - 65% of Qualifying Contract Expenses

- The R&D Credit can be claimed for all open tax years.
 - You have three years from the date of filing to amend a return to claim an R&D Credit.
 - For example, if you filed your 2010 tax year returns on March 15, 2011, you would be able to amend before March 15, 2014.
 - This allows companies that have been participating in R&D activities in prior years to capture credits that were missed thus resulting in potentially substantial refunds.
- If you prefer not to amend prior years you can choose to only file for the current year credit.

- Form 6765
 - You will need a tax preparer that understand the many intricacies of including an R&D Credit in both your federal and state tax returns.
- Main Components of an R&D Calculation
 - QREs
 - Base Amount
 - Multiplier
- Dual methods for calculating the Credit
 - “Regular” Method
 - Alternative Simplified Credit

- Identify potential Qualified Research Activities (QRAs)
- Determine whether or not potential QRAs qualify
- Identify and substantiate the resulting Qualified Research Expenses (QREs)
- Calculate the R&D Tax Credit
- Report Findings
- Defend Claim

- We can review your specific QREs and QRAs and give you an estimate of your benefit.
- Here are examples of credits claimed for other companies that may be similar to yours:

Industry	Activity	Annual Revenue	Annual Credit Amount
Government Contractor	Manufactures flight simulators (software and hardware)	\$12MM	\$120,000
Government Contractor	Writes encryption software	\$4MM	\$220,000
Software Company	Cloud based web hosting	\$9MM	\$200,000
Software Company	Automates court dockets	\$9MM	\$100,000
Manufacturer	Manufactures industrial machines	\$12MM	\$180,000
Manufacturer	Injection molding	\$7MM	\$70,000
Manufacturer	Cosmetics	\$20MM	\$100,000

- **A straight-forward and honest approach to Business Development**
 - Does the business conduct qualifying activities?
 - What is the size of the potential benefit?
 - How will the business or its owners utilize the benefit?
 - What will the project entail and what will it cost?
 - What are the relevant statutory deadlines?
- **Superior project execution**
 - Tax professionals with extensive industry experience
 - Custom-developed proprietary analytical tools
 - Superior delivery – follow-up and follow-through
 - Tax Preparers that are educated and experienced and claiming the R&D Credit.
- **Exceeding client expectations**

TRCG Advisors	Aronson LLC
11757 Katy Freeway – Suite 830 Houston, TX 77079	805 King Farm Blvd. --- Suite 300 Rockville, MD 20850
sdoughty@trcgadvisors.com tnally@trcgadvisors.com	mdeluca@aronsonllc.com

IRS CIRCULAR 230 DISCLOSURE: To ensure compliance with requirements imposed by the IRS, we hereby inform you that any U.S. federal tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing, or recommending to another party any transaction or tax-related matters.