R&D TAX CREDIT OVERVIEW

What if you could save thousands of dollars annually in taxes—all thanks to work you're already doing? Through R&D tax credits, you can.

WHAT IS THE FEDERAL R&D TAX CREDIT?

Each year the U.S. government provides billions of dollars to innovative businesses for developing and improving technologies, products, and processes.

THE HISTORY

1981

The **R&D Tax Credit** was introduced in the **Economic Recovery Tax Act** as a temporary incentive to encourage additional research spending.

2015

After repeated expirations and renewals, the **Protecting Americans from Tax Hikes Act** permanently extended the R&D tax credit while expanding its benefits for companies performing research and development.

2016

$15 billion in R&D credits were claimed. But **87%** still went to large corporations.

TODAY

Many growing businesses continue to miss the R&D credit. Some perceive it to be too complex or costly. Others mistakenly believe they don't qualify.

WHAT IS IT WORTH?

For most companies, the credit is worth 7-10% of qualified research expenditures. This is a dollar-for-dollar credit against taxes owed which can dramatically lower the effective tax rate. Plus, it can carry forward 20 years. For young businesses that are not yet profitable, applying the credit against payroll taxes is a valuable, non-dilutive funding opportunity.

R&D tax credits can be used to offset:

- Income taxes for companies in a taxable position.
- Alternative Minimum Tax (AMT) if companies have less than $50 million in average revenue for the three preceding years and owe AMT in the current year.
- Employer portion of payroll taxes (FICA) up to $500,000 each year for a qualified small business.

WHAT WORK QUALIFIES?

Many businesses perform activities that qualify for the R&D tax credit without realizing it. Some examples of industries that often qualify include:

Software Development

Manufacturing/Food Processing

Architecture & Engineering

Agriculture

Pharmaceutical & BioTech

Beer & Coffee

If a company does anything technology-based, improves it, and sells it to customers, they probably qualify. IRS tax regulations outline a straightforward 4-part test that creates a fairly low bar for qualification.

THE 4 PART TEST

1 PERMITTED PURPOSE – Are you developing or improving a product, process, formula or software?

2 TECHNOLOGICAL IN NATURE – Is your work within physical or biological sciences, engineering, or computer sciences?

3 ELIMINATION OF UNCERTAINTY – Are you asking questions like, "Can we develop it?" or "How do we develop it?"

4 PROCESS OF EXPERIMENTATION – Are you systematically evaluating one or more alternatives?

WHAT EXPENSES CAN BE CLAIMED?

There are three types of expenses you can include in the calculation of the credit.

WAGES

Often the largest component; W-2 Box 1 wages paid to U.S.-based employees.

CONTRACT EXPENSES

65% of payments made to U.S.-based contractors.

SUPPLIES

Non-capital/non-depreciable materials and tools used or consumed in the development process.

TOTAL R&D SPEND

R&D SAVINGS SCENARIO

A startup raises $4MM to develop smart dental technology. In 2018, $1.16MM of this capital is spent on qualified innovation activities as follows:

$1,102,000

Engineers, designers, and direct supervisors.

$41,145

Third party developers.

$24,000

Web services and prototype materials.

$1,167,145

CREDIT AMOUNT = $116,715

ABOUT CLARUS R+D

We focus on streamlined, fully compliant R&D studies. Our technology-driven solution simplifies the process, maximizes the benefit, and reduces overall cost. Here's how it works:

STEP 01

QUALIFY

Identify projects
Define innovation
Take 4-part test

STEP 02

CALCULATE

Categorize project expenses
Create nexus
Calculate credit

STEP 03

DOCUMENT

Generate IRS compliant documentation
Create IRS tax form 6765

STEP 04

MONETIZE

Coordinate with tax preparers, CPAs, and payroll providers
File amendments and payroll tax returns

POWERED BY CLARUS R+D APP

THE RESULT

You've earned this money. So what are you waiting for?

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