R&D CREDITS FOR BIOTECHNOLOGY

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 to startups and small businesses.

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 your 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 if you're in a taxable position.
- Alternative Minimum Tax (AMT) if you have less than $50 million in average revenue for the three preceding years and you owe AMT in the current year.
- Employer portion of payroll taxes up to $250,000 each year if you're a qualified small business.

WHAT BIOTECHNOLOGY ACTIVITIES QUALIFY?

Many biotech firms perform activities that qualify for the R&D tax credit without realizing it. Examples include:

- **Developing computational techniques to advance bioinformatics**
- **Creating new or enhanced production processes utilizing enzymes**
- **Developing or enhancing genetic modification tools or techniques for agriculture or livestock**
- **Developing new or improved cultivation of plants through micro-propagation or genetic modification**
- **Developing new or improved processes to degrade contaminants in a polluted environment**
- **Developing biosynthetic processes to convert substrates into more complex products**
- **Designing new biomaterials to support tissue formation for medical application**
- **Developing new or improved gene therapy procedures**
- **Testing to satisfy regulatory requirements**

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 or wages earned by company owners.

CONTRACT EXPENSES

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

SUPPLIES

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

R&D SAVINGS SCENARIO

A company invests $4MM to design new biomaterials. Of this capital, $1.16MM is spent on qualified innovation activities as follows:

WAGES	**$1,102,000**	Scientists, researchers, and direct supervisors, etc.
CONTRACT EXPENSES	**$41,145**	Third party developers, manufacturers, etc.
SUPPLIES	**$24,000**	Lab supplies, prototypes, etc..
TOTAL R&D SPEND	**$1,167,145**	

CREDIT AMOUNT = $116,715

ABOUT CLARUS R+D

Clarus R+D helps innovators claim the R&D tax credits they've earned. We focus on small to midsized businesses that have traditionally missed the R&D tax credit because of the perception that it's too complex or costly. Our software simplifies the process and maximizes your benefit.

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

WITHIN THE CLARUS R+D APP — THE RESULT