

R&D CREDITS FOR INVESTMENT MANAGEMENT

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 (FICA) up to \$250,000 each year if you're a qualified small business.

WHAT WORK QUALIFIES?

Some fintech companies perform activities that qualify for the R&D tax credit without realizing it. Some examples of qualifying activities include:

- **Designing and developing algorithms, collateral tracking systems, and research and simulation platforms**
- **Developing exchange gateways or connectivity**
- **Researching and developing expense analysis and monitoring systems, feed handlers, and quoting systems**
- **Creating new or improved financing, cash, and trading platforms**
- **Developing new tools and systems for portfolio management, predictive analytics, and risk management**
- **Developing pricing, relative value, and volatility tools and systems**
- **Building quantitative research models and tools**

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.

R&D SAVINGS SCENARIO

A startup raises \$4MM to develop risk management tools. Of this capital, \$1.16MM is spent on qualified innovation activities as follows:

WAGES

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

\$1,102,000

Computer & data scientists, developers, and direct supervisors.

CONTRACT EXPENSES

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

\$41,145

Third party developers.

SUPPLIES

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

\$24,000

Cloud hosting services and prototype materials.

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 mid-sized 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

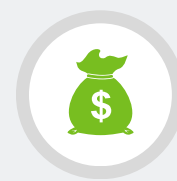
STEP 03



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

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

Estimate your savings now at clarusrd.com/calculator.