

# R&D CREDITS FOR MEDICAL DEVICES

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 ACTIVITIES QUALIFY?

Medical device companies perform many activities that qualify for the R&D tax credit. Examples include:

- Developing engineering drawings and specifications
- Performing CAD modeling
- Developing second-generation or improved products
- Tooling and equipment fixture design and development
- Conducting new product development and design
- Developing unique computer numerical control programs
- Developing a high-volume packaging process for use with a sterilized medical product
- Developing equipment that satisfies increasing regulatory requirements
- Programming software, compiling, and testing source code for firmware
- Conducting unit, integration, functional, and performance testing
- Conducting clinical tests to satisfy government regulatory requirements prior to commercialization
- Generating prototypes and first articles of new products for testing and validation
- Implementing automation processes or robotics
- And so on...

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 company invests \$4MM to improve product quality. Of this capital, \$1.16MM is spent on qualified innovation activities as follows:

### WAGES

**\$1,102,000**

Often the largest component; W-2 Box 1 wages paid to U.S.-based employees or wages earned by company owners.

Engineers, designers, and direct supervisors, etc.

### CONTRACT EXPENSES

**\$41,145**

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

Third party developers, etc.

### SUPPLIES

**\$24,000**

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

Prototype materials, and CAD or development software.

### 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

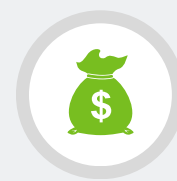
### STEP 03



#### 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](https://ClarusRD.com/calculator)