

RESEARCH & DEVELOPMENT TAX CREDIT

9 Q&A

Q1: WHAT IS THE RESEARCH & DEVELOPMENT (R&D) TAX CREDIT?

Answer: R&D tax credits are non-refundable government incentives to support American businesses in their research and development efforts. These credits offer financial benefits as a way of recognizing and rewarding companies that invest in innovative activities. Eligible R&D activities can include developing new products, refining processes, or advancing technologies. Businesses involved in these innovative endeavors may receive a dollar for dollar reduction in tax liabilities, providing them with additional resources for further research and development initiatives.

Q2: WHAT KIND OF DOCUMENTATION IS REQUIRED TO SUPPORT R&D TAX CREDIT CLAIMS?

Answer: Comprehensive documentation includes project descriptions, timelines, design drawings, contracts, and any other documentation that shows the research and development process. Robust record keeping is crucial for supporting R&D tax credit claims.

Q3: WHAT IS THE PROCESS FOR CLAIMING R&D TAX CREDITS?

Answer: The claiming process involves identifying eligible activities, calculating qualified expenditures, and submitting the claim to your tax preparer to be filed along with your company's tax return. The time frame from the initial assessment to completion is dependent upon your availability to discuss pertinent information regarding qualification towards R&D. Our team is happy to guide you through the process.

Q4: WHICH EXPENSES CAN BE INCLUDED IN OUR R&D TAX CREDIT CLAIM?

Answer: Eligible expenditures often include wages, supplies, computer rental/cloud storage, and contract research expenses directly related to qualified R&D activities. Our onboarding team will help guide you through which documents are needed to calculate your return.

Q5: HOW CAN R&D TAX CREDITS POSITIVELY IMPACT OUR COMPANY'S CASH FLOW?

Answer: R&D tax credits provide a dollar-for-dollar reduction in your tax liability. This means that for every eligible R&D expense, you can reduce the tax liability owed by your company.

Q6: ARE THERE SPECIFIC CONSIDERATIONS FOR R&D TAX CREDITS IN OUR INDUSTRY?

Answer: While there are different challenges for R&D within every industry, there are no special considerations from one industry to the next. R&D qualifications are based on the IRC § 41, regardless of industry.

Q7: WHAT SHOULD WE BE AWARE OF IN TERMS OF POTENTIAL AUDITS RELATED TO OUR R&D TAX CREDIT CLAIMS?

Answer: Our team is specialized in the IRS guidance to ensure compliance with R&D tax credit qualification. Our comprehensive process and documentation requirements not only work to support your claims but also to position your company to withstand any IRS scrutiny, ensuring a smooth process and validating the legitimacy of your R&D tax credit claims.

Q8: WHAT QUALIFIES AS 'INNOVATION' FOR R&D TAX CREDITS?

Answer: Innovation for R&D tax credits typically involves activities that contribute to the advancement of knowledge and technology within a specific company. It includes efforts to resolve technical uncertainties, improve existing processes or products, and achieve technological advancements. Innovation is often linked to the presence of systematic experimentation and the resolution of technological challenges.

Q9: WHAT MATERIALS ARE NEEDED TO GET STARTED?

R&D Project List:

Descriptions of each R&D project, outlining the objectives, methodologies, and technical challenges addressed. This helps us identify which of your projects have the qualifications necessary for successful filings.

Previous 4 Years of Income Tax Returns:

Having access to the past four years of tax returns is crucial to understanding your company financial history and R&D claims over time. This also allows us to make sure your filings have the correct information and financial data needed to calculate your credit.

Payroll Information:

Submit payroll records for all employees for the years you are applying for R&D. These records should include Form W2 box one wages; nothing further in depth payroll information is needed.

R&D Related Expenses:

Provide a detailed list of R&D related expenses associated with the year of R&D study. This included costs located on Profit & Loss Statements, General Ledgers, and 1099s. If the expenses are not repeated by R&D and non R&D that is okay

Contracts or Agreements:

Contracts or agreements with external parties involved in R&D collaborations, showcasing the nature and scope of the partnerships.

Time Tracking:

Logs documenting systematic testing, experimentation, or trial phases conducted during the R&D projects. If your company tracks employee hours spent on projects please provide the reports associated with each project.

Aggregation Documents:

Method of expense overhead for clients in a controlled group.

Previously Filed 6765 Forms:

If you have previously filed for R&D tax credits, providing copies of the filed prior years 6765 forms.

Miscellaneous Documents:

Any additional documentation that can support your R&D claims.