

ANDERS REAL ESTATE & CONSTRUCTION SERVICES

RESEARCH AND DEVELOPMENT (R&D) TAX CREDIT CHEAT SHEET

WHAT IS THE R&D TAX CREDIT?

The R&D (Experimentation) Tax Credit is a general business tax credit available to companies who incur R&D costs in the United States. The credit is generally calculated based on a percentage of qualified R&D costs incurred during the year. Many factors are used in determining your qualified R&D expenditures and each industry is different.

WHAT QUALIFIES?

There are a wide variety of companies/industries that qualify for the credit. Some examples include:

- Companies who continually manufacture/research/engineer new processes and products
- Businesses designing and developing product alternatives and more efficient designs
- Companies improving techniques, formulas, inventions, and software
- Businesses that employ engineers, scientists, software programmers, etc.

HOW IS THE CREDIT CALCULATED?

There are two different ways to calculate the credit, the regular method and the alternative simplified method. The regular method requires access to detailed historical records and may be required in certain circumstances. When allowed, the alternative simplified method is easier to calculate and often the preferred method.

Taxpayers are allowed to amend tax returns to utilize the R&D tax credit. As of recently both calculation methods are allowed on amended returns. Regardless of which method is used, the allowable credit should be calculated by a professional.

WHAT TO WATCH OUT FOR?

After determining a taxpayer qualifies for the R&D credit, the following items should be considered before proceeding with an R&D study:

- The alternative minimum tax (AMT) implication to the R&D credit may affect those who were expecting to receive full benefit from the tax credit. The R&D credit cannot offset AMT on an individual tax return, so taxpayers who are subject to AMT need to consider this and quantify their allowable credit.
- The credit is subject to certain income limitations. For example, to take the credit you must recognize income from the entity you are claiming the R&D credit.
- Absent an election, when you take the R&D credit on your tax return, you must reduce your R&D tax deductions by the same amount. This can result in an unfavorable tax situation given you file in states that do not allow the R&D credit. If you make an election under IRS Section 280(c), you elect to reduce the R&D credit, but do not have to reduce R&D deductions. Currently, the 280(c) election cannot be made on amended returns.
- If the credit is not used in the current year, it may be carried back one year and forward for 20 years.

WHEN DOES THE CREDIT EXPIRE?

The credit is currently expired as of December 31, 2014. There have been many attempts by congress to make the R&D credit permanent. Given the law has been extended every time it has expired, experts are confident it will be extended again. Contact your Anders advisor to discuss the R&D credit in more detail.

To learn more about our services or arrange meeting with our team, please contact:

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