Don’t Leave Money on the Table – Utilize the R&D Tax Credit

Effective for taxable years starting in 2016, “eligible small businesses” can use the Research & Development (R&D) Tax Credit to offset their Alternative Minimum Tax (AMT) liabilities.

How does the R&D Tax Credit help Small Business Owners?

An “eligible small business” is generally defined in Section 38(c)(5)(C) of the Internal Revenue Code (IRC) as a business with average annual gross receipts of $50 million or less for the three preceding taxable years. In the case of a partnership or S corporation, the gross receipts test is applied at the individual owner level.

Many small to mid-size business owners are well aware of the limitation that AMT has on the usage and effectiveness of particular tax deductions and credits. In certain instances, AMT was intended to increase a taxpayer’s minimum tax paid, and, historically, the R&D Tax Credit had limited worth to a small business owner due to the AMT limitations.

Since the enactment of the PATH Act in 2015, eligible small businesses are now permitted to offset their AMT liabilities with the R&D Tax Credit. Further, unused R&D credits may be carried back one year and carried forward 20 years to offset any AMT liabilities in those years. The intent is for small businesses to reinvest the saved tax dollars on innovation and R&D efforts as they continue to grow their companies. Small businesses that engage in these or similar activities may qualify for the R&D Tax Credit:

- Develop or test new products and materials
- Develop new or enhanced formulations
- Test new concepts
- Improve existing products
- Conduct trial and error experimentation
- Design tools, jigs, molds or dies
- Develop or improve production or processes
- Develop, implement, or upgrade systems and/or software

The credit differs from a deduction in that it is an actual dollar-for-dollar offset against taxes owed or paid, including AMT.
How Does the R&D Credit Work?

Very generally, the R&D Tax Credit is a federal tax subsidy for spending on qualified research activities found in Section 41 of the IRC. Section 41 allows taxpayers to choose between two methods of calculating the R&D Tax Credit:

- A regular credit equal to 20 percent of the excess of the taxpayer’s “qualified research expenses” (QREs) over a base amount; or
- An alternative simplified credit equal to 14 percent of the amount by which the taxpayer’s QREs for the taxable year exceed 50 percent of the taxpayer’s average QREs in the prior three taxable years.

QREs generally include employee wages and supply costs directly attributable to qualified research activities and 65 percent of payments to outside contractors to perform qualified research activities.

Further, unused R&D tax credits of an “eligible small business” may be carried back one year and carried forward 20 years to offset any AMT liabilities in those years, under Section 38 and 39 of the IRC – the general business credit rules.

Contact us today for a complimentary no-risk assessment of your R&D Tax Credit options.

What Industries Qualify?

Firms in all major industries may qualify to claim the credit. We have helped clients in a wide array of industries, including:

- Aerospace
- Agriculture
- Architecture
- Chemical
- Computer Hardware
- Construction
- Consumer Products
- Energy
- Engineering
- Financial Services
- Furniture
- Government Contractors
- Manufacturing & Distribution
- Medical Devices
- Metals & Mining
- Oil & Gas
- Software
- Technology & Life Sciences
- Telecom
- Utilities & Waste

Let us be your guide forward

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