



Credits & Accounting Methods

R&D Tax Credit at the State Level

Take Advantage of Federal & State R&D Tax Credits

If you think research and development (“R&D”) tax credits are only for science experiments and big scientific breakthroughs, then you could be missing out on some big tax credits for your own business. If your business is involved in applied research, or practical and technical problem solving, then more likely than not, your company may be engaged in activities that qualify for an R&D tax credit. Even making small improvements to a product or a process could qualify you for the credit.

Federal R&D tax credit

The Protecting Americans from Tax Hikes Act of 2015 (“PATH Act”) extended many expired provisions of the Internal Revenue Code (“IRC”). It was signed into law after support from the House and Senate on December 18, 2015. The PATH Act impacted many temporary credits that used to be routinely extended for one or two-year periods, including the R&D tax credit, which was made permanent.

The credit differs from a deduction in that it is an actual dollar-for-dollar offset against taxes owed or paid. While calculating the credit can be complex, most companies receive a credit equal to 9-14 percent of total qualifying expenditures. Most qualifying expenses result from the wages paid to employees who participate in qualifying activities. If your company has been engaged in qualifying activities for the last several years, you may be eligible to retroactively claim R&D tax credits.

Double the credit: How to claim your R&D credits on state and federal returns

Not only can you take advantage of the R&D tax credit at the federal level, you may be able to claim an R&D tax credit at the state level, too. Many states in the South and Mid-Atlantic provide R&D tax credits or similar incentives. Review our R&D tax credit resource chart included in this handout to see if the state where you are conducting R&D activities offers an R&D tax credit or incentive.

Regional State*	R&D Tax Credit Overview
Arkansas (AR)	Arkansas offers a variety of R&D tax credits, including a credit for R&D with universities, in-house research credit, and credit for research programs carried out under the Arkansas Science and Technology Authority.
Delaware (DE)	The taxpayer may elect an R&D tax credit for the taxable year equal to either 10% of the excess of the taxpayer's total Delaware qualified R&D expenses for the taxable year over the taxpayer's Delaware base amount or 50% of Delaware's apportioned share of the taxpayer's federal R&D tax credit (using the ASC method). There is also a small business-specific R&D tax credit.
Florida (FL)	Qualified target-industry businesses subject to the Florida corporate income tax can apply for an allocation of the Florida R&D tax credit for expenses incurred in each calendar year.
Georgia (GA)	The tax credit earned is a portion of the increase in R&D spending. The credit can be used to offset up to 50% of net Georgia income tax liability after all other credits have been applied.
Kentucky (KY)	Businesses that invest in facilities used to pursue research may qualify for a state income tax credit. The non-refundable income tax credit is equal to 5% of the qualified cost for "construction of research facilities" for qualifying research.
Louisiana (LA)	In order for the credit to be awarded, a taxpayer must apply for and may receive up to a 40% tax credit on qualified research expenditures incurred in Louisiana.
Maryland (MD)	Businesses that have qualified R&D expenditures in Maryland may qualify for two state income tax credits: the Basic R&D tax credit and the Growth R&D tax credit.
Mississippi (MS)	Under Mississippi's R&D Skills Credit, a credit of \$1,000 is available for the first five years for each net full-time employee in any job requiring R&D skills.
Virginia (VA)	For taxable years on or after Jan. 1, 2016, the R&D tax credit allows an income tax credit of 15% of the first \$300,000 on qualified R&D expenses incurred in Virginia or 20% of the first \$300,000, if research is conducted with a private or public university. There is also a major R&D tax credit.
South Carolina (SC)	This R&D tax credit is equal to 5% of the taxpayer's qualified research expenses incurred in South Carolina.
Texas (TX)	Taxpayers in Texas can claim the R&D tax credit to offset a portion of their franchise tax or to use towards a sales and use tax exemption on the purchase or lease of depreciable tangible personal property used in qualified research in Texas.

* Several states do not or no longer have an R&D tax credit or incentives available, including: Alabama, North Carolina, Oklahoma, Tennessee, and West Virginia

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

Let us be your guide forward



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