INVESTING IN R&D: REDUCE YOUR TAX LIABILITY

The Research and Development Tax Credit

R&D TAX CREDIT OVERVIEW

The R&D Credit is a substantial tax incentive that reduces dollar for dollar your company's overall tax cost as a reward for invention and innovation. This credit exists as a government effort to encourage businesses to take risks, where they otherwise might be put off by the costs of such experimentation.

This credit is often overlooked, but it can be one of the most powerful tools in reducing your tax liability. The government wants to help your business succeed, and tax credits help overcome the problem of taxes suppressing innovation.

THE FOUR PART TEST

- Elimination of Uncertainty: the project must have begun in a quest to solve a problem or answer a question.
- Technological in Nature: the project or experiment must exist within the STEM field, or hard sciences and exist to enhance or expand current technologies.
- Permitted Purpose: the activities must be aimed at developing or improving the business' components such as functionality, performance, quality, or reliability.
- Process of Experimentation: there should be a clear and documented process of experimentation in order to attempt to eliminate the uncertainty. A tax pro will guide you through this.

THE EFFECT OF THE PATH ACT AND THE TCJA

- For tax years AFTER December 31, 2021, the TCJA specifies that certain research and experimental expenses must be capitalized and amortized.
- Reducing the corporate tax rate from 35% to 21% means that while the exact numbers will vary based on the individual taxpayer, the reduction in the research credit will be less under the new corporate tax rate. The net R&D credit is, therefore, **increased.**
- The PATH Act permanently extended the R&D Credit and made it possible to use R&D Credits to offset payroll taxes.

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