

ARTICLE: Research Tax Credit - An Often Overlooked Opportunity

Research Tax Credit Available for Internal Use Software Development. Significant opportunities under the R&D regulations exist to secure tax credits for software development. The definition and qualifying criteria of internal use software (IUS) is not yet formally published as the IRS definition of IUS contains subjective terms and includes additional test beyond Congress intent, resulting in ambiguous and conflicting guidance.




Click the "**Full Article**" link to identify the requirements for claiming this IUS tax credit.

In today's computer driven economy, its not unusual for a business to allocate more of its research budget to internal software development than to product development. The investment in research to develop software that will increase the speed and efficiency of a company's operations and processes, while also creating significant cost savings, is vast.

This research enhances global marketplace competition for domestic businesses – the intended result of the research tax credit.

Congress initially provided little guidance to the IRS for publication of the applicable rules and definitions, resulting in some still unresolved issues after twenty years – hence, the absence of final regulations.

There is, however, opportunity to claim the research credit for IUS expenditures under the existing proposed guidance. The debate surrounding the definition centers on how to treat software that is created to provide services to a company's customers.

The definition of IUS is critical to taxpayers interested in claiming the credit.		The software must be innovative
IUS classified software development is subject to the High Threshold of Innovation Test (HTI), and contains three requirements that must be met for credit eligibility.		The development must involve significant economic risk
		The software must not be commercially available

The three requirements have now morphed into something ambiguous. Specifically, the innovative test originally required that the software result in a substantial and economically significant improvement in speed or reduction in cost. However, current regulations define innovative as something that is unique or novel and also require that the implementation of the software differ in a significant and inventive way from prior software implementations. Obviously, the goal of the tax law simplification is clearly not met if this proposed definition should become final.

Due to the increase in investment in computer technology, significant opportunity exists to secure research tax credits based on software development expenditures. Please contact us to gain more information on what this opportunity could mean to your company.

ARTICLE: The R&D Tax Credit...Is Your Company Eligible to Reap Its Benefits?

The R&D Tax Credit can be a significant and immediate source of cash for small and mid-size companies. Recently, new IRS regulations have made qualifying for the credit more appealing to more companies and, as a result, there has not been a better time for your company to take advantage of its benefits.

Click the "**Full Article**" link below to review qualified expenditures, and eligibility criteria.

In today's highly competitive business environment, finding capital to spend on research and development for new and innovative products may be the difference between a company's success and failure. Fortunately, the R&D tax credit provides organizations with an amazing opportunity to maximize their savings and to enhance their ability to compete in the global economy.

Introduced in 1981, the intent of the tax credit was to provide companies with a temporary credit to increase R&D spending, enable U.S. companies to create and preserve high paying jobs, and be better prepared to compete well into the future.

But the tax credit's evolving history has created confusion and misperception regarding the definition of qualified research activities and expenditures incurred in the U.S.

Recently, new regulations brought clarification to many of the credit's research provisions, which helped to decrease what had been its most significant obstacle – understanding whether a company's activities qualified for the credit. As a result of these changes, many companies are learning that they can now claim R&D tax credits that they could not have in the past.

Surprisingly, thousands of small to mid-size companies overlook qualifying for R&D expenditures in day-to-day operations such as engineering, production, quality assurance, sales, marketing, purchasing, and information technology.

The categories of qualified R&D expenditures, which are embedded in an organization's operations include:

- Wages paid to employees performing qualified research activities
- A percentage of the amount paid to outside contractors for the performance of qualified research
- The expenditures for supplies used in the conduct of qualified research

Is your company involved in any of the following activities?

- Manufacturing products
- Developing new products, processes, formulas, software, techniques, etc.
- Improving existing products, processes, formulas, software, techniques, etc.
- Creating more reliable products, processes, formulas, software, techniques, etc.
- Developing prototypes or models, including computer generated
- Designing tools, jigs, molds, dies
- Applying for patents
- Testing for quality certification
- Testing new concepts
- Sourcing new raw materials
- Developing new technology
- Improving existing or building new facilities
- Employing outside consultants and/or contractors to do any of the above activities

If the answer is YES to any one of the above, an organization may be eligible to retroactively claim the R&D credit for federal and state income tax purposes, obtain significant cash refunds, and establish the methodology to claim the credit in future years.

The tax credit was designed to provide incentives to U.S. companies to invest in R&D so this country wouldn't fall behind in an ever-changing business environment. By giving organizations the unique opportunity to recoup expenditures, it spurs a positive trickle-down effect in the U.S. economy.

An increase in R&D spending greatly benefits the company claiming the credits through improved tax savings, enhances the skill sets and educational capacities of the U.S. workforce, encourages organizations to expand R&D, and ultimately enables consumers to enjoy new products that can improve their way of life.

If your organization hasn't taken advantage of the R&D tax credit or maximized it to the fullest potential, then it's time to take action right away. This is your company's opportunity to significantly increase its bottom line and fund the next R&D project. If you wait, your competition could leave you in the dust!

In order to fully maximize your company's R&D tax credit savings, you need to partner with a professional services firm that specializes in this area.

For more information on tax credits or to discuss eligibility to claim this tax credit, please contact us.