

## **R&D Tax Credit – Opportunities**

### **Using the R&D Tax Credit to Offset Payroll Taxes**

#### Overview

- Federal tax credit for new/improved product development activities, software development, or manufacturing processing improvements

#### How is the R&D credit calculated?

- Costs include wages paid to product developers, engineers, technical staff
- Also wages paid to project managers, supervisors, QA testers
- Business folks who participate in requirements, meetings, testing – also qualifies
- Executives who are hands-on with the design, requirements, meetings
- Contractors/consultants hired to do development or testing can qualify
- Personnel must be in the U.S. doing the work; cannot include offshore resources

#### How is the R&D credit applied?

- The credit is a dollar for dollar tax credit against federal income tax, OR
- New rule – start up companies can use the R&D credit to offset (or eliminate) payroll taxes (FICA employer portion of payroll taxes each quarter starting in 2017).
- Scenario – file tax return March/April, start to use the R&D credit against Q2/Q3/Q4 payroll taxes
- Can carry unused R&D credits forward to future quarters to continue to eliminate FICA taxes

#### Phase 1 - Pre-Qualification/Scoping

- Warner Robinson requests some basic info/data and conducts some high level interviews with managers
- This is typically done in a one hour conference call format
- Warner Robinson calculates available R&D credits
- Assess which years are available to claim credits, calculate the credit available by year
- No fee for this phase

#### Phase 2 – Site Visit, Interviews, Memos, Final Report

- Interviews with engineers, managers, product developers on a sample of projects per year to document how the projects meet the criteria and document the R&D
- Prepare interview report memos substantiating the activities
- Prepare cost models/calculation and workpapers to claim the credits
- Gather additional supporting engineering documentation



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- Prepare all memos, executive summary, organize all files into a binder and USB flash drive deliverable
- Time commitment – the interviews are generally one hour with a select group of engineers/PMs; we don't need to interview everyone, so individual one hour interviews with selected technical leads

### Why Warner Robinson?

- We are one of the few firms with former IRS attorney on staff (Bruce Warner) who litigated R&D cases with the IRS and helped write guidance papers used by the IRS in administering R&D tax credits
- Cedar Robinson, our other founding partner, has over 20 years' experience with the R&D credit and was a former partner at Grant Thornton heading up their mid-west R&D practice.
- Entire team has many years of experience working with numerous companies on R&D credits
- Many client references available upon request
- Fees are reasonable and lower than larger accounting firm fees (we will discuss with you at the conclusion of the free scoping phase)
- We take a reasonable approach focusing on documenting the R&D credits available; we don't take risky positions or oversell the credits available
- No cost to see if your company would qualify; other firms may charge for the scoping effort

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