R&D Tax Credit – Opportunities for Software Companies
Frequently Asked Questions

Overview

- Federal tax credit for new/improved software development activities
- To the extent the team is working on new software, new features/enhancements/new functionality the work can be considered R&D if the development required experimentation to arrive at the best design

How is the R&D credit calculated?

- Costs include wages paid to 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
- 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 2017, start to use the R&D credit against Q2/Q3/Q4 payroll 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, PMs, 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
- Prepare all memos, executive summary, organize all files into a binder and USB flash drive deliverable

- Fees are capped at 20% of the benefit and are billed in progress payments
- 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 software R&D cases with the IRS and helped write guidance papers used by the IRS in administering software 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 software companies on R&D credits
- Many software company client references available upon request
- Fees are reasonable and lower than larger accounting firm fees (which could exceed 35% of the benefits)
- 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

Contact Info: Warner Robinson

- Bruce Warner (913) 522-6420, bruce@warner-robinson.com
- Cedar Robinson (816) 309-5535, cedar@warner-robinson.com

Appendix – Examples of Qualified Software Development Activities that may be considered R&D

- Co-development efforts with an outside vendor;
- Major system re-architectures;
- Systems developed from scratch after determining that no commercial solution existed;
- Projects to develop functionality unique and new to the industry;
- Use of new technology or even existing technology in a new and unique way;
- Development of a unique security schema;
- Integration efforts to merge many discrete systems into one system;
- Development of new middleware or use of commercial middleware in a unique way;
- Creation of a new or unique architecture (i.e., layered architecture);
- Data mining, data warehousing, or other efforts to improve data storage and retrieval;
- Experimentation with newer databases (NoSQL, in-memory, etc.);
- Use of artificial intelligence (AI), neural networks, natural language processing, pattern recognition, experts systems or other techniques;
- Development of a new software methodology for rapidly developing or deploying software;
- Creation of unique algorithms or rules engines to accomplish a task;
- Unique means of encapsulation or unique wrappers created in object oriented systems;
- Evaluating messaging protocols;
- Unique use of newer web-based technologies (could be open source, in-house, commercial, newer libraries, newer ways to present web pages or interaction on web sites);
- Development of a unique clustering, load balancing or failover schema;
- Efforts to extend or enhance the capabilities of a commercial software product;
- Failed development efforts, particularly if the project failed for technical reasons;
- Software that results in providing the company with a competitive advantage.

**Just a partial list of examples; really depends on the facts of your project which is where the interviews come into play.