

# R&D and Other Tax Credits

Presenters:

➤ Jay Wadsworth and M. Javier Zuñiga



# Presenter Bios



## Jay E. Wadsworth, Shareholder

Jay has been with PDR CPAs for over 17 years, focusing primarily on corporate and partnership tax compliance. His expertise includes: Mergers and Acquisitions, Tax Planning, Business Succession Planning, Estate & Trust taxation. Additionally, Wadsworth has extensive experience with R&D tax credits and has assisted many business owners in taking advantage of this as well as other tax credits.

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## M. Javier Zuñiga, Senior Consultant

Javier's expertise includes corporate and partnership tax compliance, partnership structures, international taxation, individual taxation and forensic accounting. He is also part of PDR CPAs R&D tax credit and cost segregation studies practice areas.

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# Key Areas of R&D Tax Credit

1. New or improved business component
2. Technological in nature
3. Elimination of uncertainty
4. Process of experimentation



# What is the R&D Tax Credit?

- Designed by IRS to reward entities that pursue innovation
- Calculated on the basis of increases in research activities and expenditures
  - Three types of expenditures can qualify
    1. Qualified research in taxpayer's trade of business
    2. Qualified payments for basic research
    3. Payments to a qualified energy consortium for energy research

# Examples of Business Component Type Activities

- Development of an innovative product
- Engineering and design of a new product
- Research aimed at discovering new knowledge
- Designing product alternatives
- Designing, constructing, and testing pre-production prototypes and models
- Experimentation with new technologies
- Developing new production processes during prototyping and preproduction phases



# Technological In Nature

- Depends on whether the Process of Experimentation utilized in the research fundamentally relies on principles of the **physical or biological sciences, engineering, or computer science**
- Taxpayer **may employ existing technologies and may rely on existing principles** of the physical or biological sciences, engineering, or computer science to satisfy requirement
- Taxpayer **does not** have to succeed in obtaining information that exceeds, refines, or expands common knowledge
- Research **cannot be in the 'soft' sciences**

# Eligible Costs

- **Wages**
  - Form W-2, Partnership Earnings subject to SE Tax, Schedule C
- **Supplies**
  - Cost to fabricate prototypes/items consumed in R&D process
- **65% of contract research**
  - Fees paid to outside consultants/engineers/software developers



# What Makes This Credit so Powerful?

- Easier for a broader array of companies to qualify their activities as R&D
- Apply new regulations for all open tax years
- Opportunity to capture credits in closed tax years
- Middle-market companies typically conduct more R&D as a percentage of revenue
- Government sponsored incentive



# Cost Segregation

What is Cost Segregation?

Cost Segregation : IRS approved method of re-classifying components and improvements of a commercial building resulting in a reduced income tax liability and an increased cash flow

➤ It is an often overlooked, under-utilized, and misunderstood tax strategy for building depreciation.



# Cost Segregation (continued)

- It is **not** a tax gimmick or tax shelter
- It **is** an effective means of significantly accelerating depreciation deductions in the early years of a building's tax life & increasing cash flow
- It **can** be applied to a new or existing building
- Generally, any building, not including land, with a cost of \$750,000 or more, **is** a potential candidate for a study

# Q&A

- Jay Wadsworth and M. Javier Zuniga

A city skyline at dusk, featuring several skyscrapers and a body of water in the foreground. A spiderweb is overlaid on the image, centered on the tallest building. The sky is a mix of orange, pink, and blue. The water reflects the buildings and the sky. On the right side, there is a green and teal geometric shape.

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