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 <u>may employ existing technologies and may rely on existing</u> <u>principles</u> of the physical or biological sciences, engineering, or computer science to satisfy requirement

• Taxpayer <u>does not</u> 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

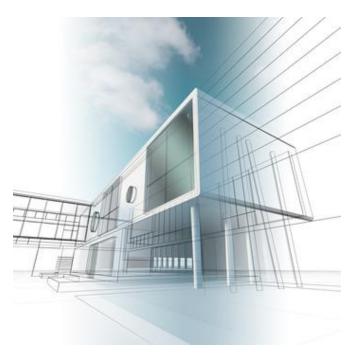


Cost Segregation

What is Cost Segregation?

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



Q&A

➢ Jay Wadsworth and M. Javier Zuniga



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