

RESEARCH AND DEVELOPMENT (R&D) FAQs

Tax credits and incentives can be useful tax-savings vehicles, but, unfortunately, they often come with popular misconceptions. The R&D Tax Credit can be advantageous for a business, but because finding the right information and answers to your questions isn't always easy, we see that even companies that qualify for tax savings don't always take advantage of them.

1. What is the R&D Tax Credit Worth?

We've found that the R&D Tax Credit [typically works out to 5 to 10 cents on each dollar of qualified expenses](#). This may vary based on the type of research activity and whether you do the work in-house or contract it out.

2. What Documentation Do I Need to Claim the R&D Tax Credit?

Like anything else on your tax return, you need to keep records substantiating the expenses you claimed.

This generally includes financial records showing that you actually paid the money, business records showing that the expense was for a qualified purpose and other records showing the breakdown of qualified vs. non-qualified activities when a total expense was incurred for multiple business purposes.



3. What if I Don't Have Income Tax Liability?

The R&D Tax Credit isn't refundable. If you don't owe income tax or if the credit is worth more than what you owe, you won't receive a check from the IRS.

Most businesses will use the 20-year carryforward to apply their unused credit to future years' taxes. Eligible small businesses can also opt to apply the credit towards their payroll taxes.

4. What about Alternative Minimum Tax?

If you're subject to the Alternative Minimum Tax (AMT), the R&D Credit typically can't be used against it. As with payroll taxes, there is an exception that allows certain small businesses to use the credit against AMT.

5. Is There a Limitation to the R&D Tax Credit amount?

There is no set maximum amount that you can claim. Generally, the only limitation would be the unlikely event that you couldn't use up your credit before the 20-year carryforward period expired.

6. What Are the Other Benefits of Claiming the R&D Tax Credit?

In addition to the tax savings, there are [three key benefits to claiming the R&D Tax Credit](#).

- Paying less in taxes will free up cash flow for other uses.
- Your innovations could help you become more competitive in your market.
- Since payroll spent on qualified activities qualifies, your payroll costs will be effectively lower.

7. How Far Back Can You Claim R&D Tax Credits?

If you were eligible for the Research and Development Tax Credit but didn't know about it (or didn't take it because you thought it was too complicated), you can still go back and take it by amending your income tax return. You generally have three years to amend your return.

You'll receive a refund for any extra amount you paid as a result of not claiming the credit. If the credit amount exceeds what you paid in income taxes, you can receive a carryforward for the remaining portion just as if you had filed on time.

8. How Do I Claim the R&D Tax Credit?

You can [claim the R&D Tax Credit](#) by filing [IRS Form 6765](#) with your income tax return.

It's important to tell your CPA ahead of time that you plan to take the R&D Tax Credit because an accountant will be able to help you determine which expenses qualify and ensure that you keep adequate documentation during the year.

But don't wait too long to start the conversation. Waiting until tax filing season to ask your CPA to complete this form could mean that it's too late to fix things if you missed a step during the year.

9. Does Claiming the R&D Tax Credit Mean I'll Get Audited?

The IRS likely won't audit you just because you took the Research and Development Tax Credit, but there are still random audits of all tax returns.

Keep in mind that the R&D Tax Credit is not a loophole, and the rules for what you can and can't claim are clear in most cases.

As long as you work with your CPA to determine your eligible expenses and properly document them, you shouldn't fear claiming a credit you're entitled to.

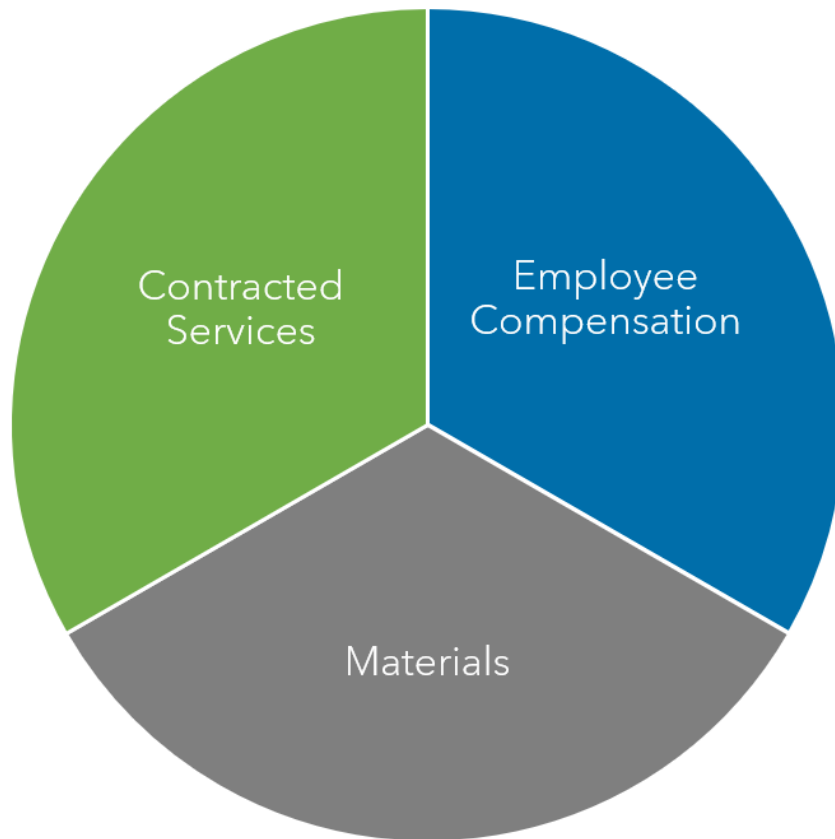
10. What Expenses Qualify for the Credit?

Expenses related to [qualified research activities](#) qualify for the credit. As a general rule, these include:

- Employee compensation
- Materials
- Contracted services

Keep in mind that only the portion of expenses related to qualifying activities is eligible.

Typical Qualified Expenses for the R&D Tax Credit



What Are Qualified Research Activities? For example, if an employee spends half of his or her time on qualifying research, your deduction would be no more than half of his or her salary. Other limitations may also apply, so your qualified expenses may not always equal your actual cash outlay.

A qualified research activity must check four boxes:

- Elimination of uncertainty
- Process of experimentation
- Technological in nature
- Qualified purpose

Essentially, a qualified research activity for the R&D Tax credit includes using the scientific process to try (successfully or not) to make some sort of improvement to your company. This might be in your products, processes, or [software](#).

There are some limitations, such as cosmetic changes not qualifying, but we've found that the credit applies in more situations than businesses typically think it does, so we recommend asking about [anything](#) you think might possibly be covered.