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5 THINGS YOU MAY NOT KNOW ABOUT THE R&D TAX CREDIT



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In an ever-changing marketplace, companies of all sizes and industries are constantly searching for new and innovative products to expand their consumer reach and market share.

However, the quest for new products almost always requires considerable research and development which, in turn, amounts to considerable time and expense.

The good news is that Research and Development Tax Credits (R&D Tax Credit) exist for this very reason: to reward companies for investing in research and development. These credits are available on both the state and federal level and can offer many tax advantages and breaks.

However, like most tax legislation and benefits, the R&D Tax Credit includes several important requirements and qualifiers that organizations must meet to be approved.

To help organizations better understand the tax credit, here are five key factors to consider when exploring the R&D Tax Credit.



The Inflation Reduction Act of 2022 Boosts Payroll Tax Offset

The Inflation Reduction Act of 2022 increased the maximum amount of payroll tax that start-ups can offset with their R&D Tax Credit to \$500,000 for tax years beginning on or after January 1, 2023.

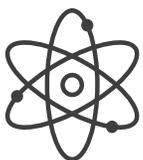
This means that eligible small businesses without tax liability can still take advantage of the R&D Tax Credit through payroll tax offset.



Contracted Work Can Still Be Risky Business

While funded research is among the exclusions for the R&D Tax Credit, the definition of funded research is not as simple as it may seem.

From a legal standpoint, getting paid for your research and development efforts does not necessarily mean the research is funded – so proceed with caution and with a trusted R&D Tax Credit advisor.



You Don't Have to Be a Mad Scientist to Get an R&D Tax Credit

Despite popular belief, "research and development" is not necessarily something completely new or cutting edge – even if those pitches sound much more exciting in investor meetings.

It's a common misconception that research and development must be new to the taxpayer industry or world to qualify for the tax credit. However, developing new and improved products, processes, formulas, inventions, software and techniques are all potentially eligible R&D Tax Credit activities.



Failure is Okay!

Research is called research for a reason. By definition, the results are unknown, even with the best intentions.

The good news is that qualifying for the R&D Tax Credit is not contingent on research being successful. In fact, the R&D Tax Credit was enacted to encourage companies to take risks to drive innovation and new discoveries.



Experience Matters

The R&D Tax Credit is a complicated matter, which is why working with an experienced CPA firm is so important. Not only do CPA firms offer experts who can analyze the impact the R&D Tax Credit will have on your entire organization, but they are also unable to charge contingent fees due to circular 230.

To put it plainly, that means firms have no incentive to take an aggressive position, which provides upfront fee transparency and clarity.

For more information on how Schneider Downs can help with your R&D Tax Credit needs, contact the team at contact@schneiderdowns.com or visit www.schneiderdowns.com/research-development-tax-credits.

How Can Schneider Downs Help?

At Schneider Downs, we can help to review your current R&D Tax Credit calculation or conduct an R&D Tax Credit Study to determine the amount of any potential credits. Our trusted professionals have significant experience in conducting R&D studies for a variety of industries, including manufacturing, software development, metal production and chemical products. Let us help you to make the most of your investment.

About Schneider Downs Tax Services

Schneider Downs' tax advisors have experience and expertise in a wide range of industries including Automotive, Construction, Real Estate, Manufacturing, Energy & Resources, Higher Education, Not-for-profits, Transportation and others. Our industry knowledge and focus ensures the delivery of technical tax strategies which can be implemented as practical business initiatives.



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