

ADP SmartCompliance® Tax Credits Module - Research & Development (R&D) Solution Overview & Collaboration Guide for Accountant Partners

When it comes to our accountant partners, ADP is committed to helping them add value to their clients. With our expertise related to the Federal Research & Development tax credit (R&D Credit), we're excited about the potential to help our accountant partners deliver significant financial benefit to their eligible clients. This document provides a high-level overview of the R&D Credit, ADP's R&D capabilities and how ADP can collaborate with our accountant partners.

ADP Tax Credits and the R&D Credit

ADP - A Proven Leader in the Tax Credits & Incentives Industry

With its dedicated tax credits business, which includes specialized focus on the R&D Credit, ADP has helped our clients secure tax credits & incentives for more than 40 years. In 2019 alone, ADP helped clients capture nearly \$1 billion in tax credits & incentives.¹

Basics of the R&D Credit

In order to incentivize innovation and foster technical job growth, the federal government rewards companies for conducting R&D activities in the United States.

Today, due to key legislative changes, companies of all sizes and from diverse industries, are taking advantage of the financial benefits offered through the R&D Credit.

For example, in 2015, the Protecting Americans from Tax Hikes (PATH) Act did two important things:



It made the R&D Credit permanent

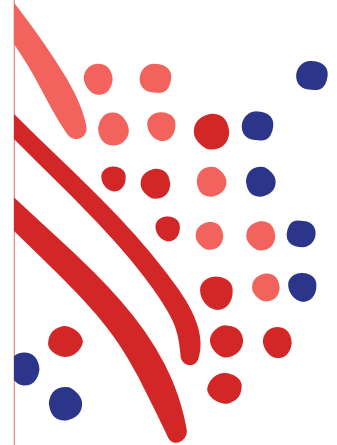


It made the R&D Credit more accessible and beneficial to small and mid-sized business, including startups

How the R&D Credit Financially Benefits Employers

The R&D Credit can be used in the following ways¹:

- 1 Reduce federal and state tax liabilities.**
- 2 Be claimed against Alternative Minimum Tax (AMT).** This may apply to businesses with an average of \$50 million or less in gross receipts over the past 3 years for tax returns prior to 2018.
- 3 Offset the Federal Insurance Contribution Act (FICA) employer portion of annual payroll taxes.** This may apply to businesses with less than \$5 million in gross receipts for the credit year (and no more than 5 years of receipts), and could allow up to \$1.25 million (\$250,000 each year for up to 5 years) in benefit.



Doesn't this just apply to large corporations with scientists & research labs?

Absolutely not!



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How ADP Helps a Business Claim the R&D Credit

While claiming the R&D Credit can be complicated for an employer, ADP leverages its data insights, technology and tax credit expertise to help minimize the effort for clients and maximize their return. With its R&D Credit solution, ADP helps to:



Identify & document qualifying activities



Ensure accuracy and provide no cost audit support



Calculate R&D expenses



Collaborate with CPAs to determine the most advantageous utilization options



Accountant Partners & ADP – Collaborating on the R&D Credit

Targeting Best Fit Industries & Additional Qualifying Details

Time is valuable for you and your clients. So, we've provided the following information meant to help you identify which of your clients is most likely to benefit from the R&D Credit:



Best Fit by Industry: Manufacturing, Software, Engineering, Biotechnology and Life Sciences



Best Fit by NAICS code: All codes starting with 31, 32, 33, 5413*, 5415, 5417 (*with exception)

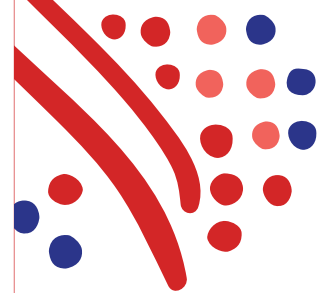
Examples of Qualifying R&D Activities Your Clients May be Performing:

To save you even more time, here are several examples to help illustrate the diverse ways in which a company can qualify for the R&D Credits:

- ✓ **Designed**, developed, improved or built new equipment, products, formula, processes or prototypes
- ✓ **Changed**, customized or improved a process to reduce costs and/or waste to improve capabilities, throughput, efficiency, accuracy, timing or competitive position for themselves or a customer (but retains IP rights)
- ✓ **Developed, tested, evaluated or modified** software or technology to allow customers to initiate functions or review data on your systems online (i.e. online ordering functions, web portals, etc)
- ✓ **Hired** 3rd party employees or companies to develop software, design, engineer or fabricate on your behalf (but retain IP rights – and work remaining in US)
- ✓ **Employed** degreed chemists, engineers, programmers, scientists or technical salespeople
- ✓ **Incurred** costs associated with raw materials, tooling and fixtures during the product development process

Align with ADP to help your clients take advantage of the R&D Credit– while maintaining your client relationships and sustaining your status as their trusted advisor. We'll help your firm capitalize on revenue from the R&D Credit - without distracting your firm from its profitable core accounting work.

For more information, go to adp.com/taxcredits or call 866-982-0551.



Here are just a few anonymized examples of actual R&D projects delivered to ADP clients:



13 employee manufacturing company

ADP helped secure **\$100,000** in R&D Credits



82 employee information technology company

ADP helped secure **\$260,000** in R&D Credits



250 medical company

ADP helped secure **\$500,000** in R&D Credits



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