



ADP SmartCompliance[®]

Tax Credits Module — Research & Development (R&D) Your CPA Firm Collaborating with ADP

The R&D Tax Credit

You're probably familiar with the federal Research and Development Tax Credit ("R&D Credit"). Eligible companies can receive a tax benefit and a dollar-for-dollar tax savings up to 20% of their qualified research and development ("R&D") expenses. The Protecting Americans from Tax Hikes (PATH) Act of 2015¹ permanently extended the R&D Credit and expanded it to offer a potential reduction in tax liability for many small to medium sized companies who previously may have been unable to take advantage of the credit. If yours is like many CPA firms, clients may come to you for help capturing R&D Credits for their organization.

Requires Focused Expertise

But capturing the R&D Credit isn't easy— less than 1/3 of the companies that qualify for the credit actually apply for and secure them. Your clients must identify, document and support their qualifying R&D activities and expenses in a comprehensive R&D study. And if your firm has ever prepared one, you're familiar with the workload.

Identify Qualifying R&D Activities. Conduct interviews across departments, being ready to "go deep" in highly mechanical, chemical, pharmaceutical, or high-tech engineering processes. Find activities that pass the "4-Part Test".

Calculate R&D Expenses. Pore over financial and payroll data to identify qualified R&D expenses, including equipment, contract research, supplies, and internal wages.

Ensure Accuracy. Make sure quantified findings are correct – if R&D activities and expenses are not properly qualified and documented, your clients could potentially incur penalties and interest if they underpaid taxes as a result of improper classifications that resulted in the taxpayer taking credits it otherwise was not eligible to claim.

Such an effort can drain capacity, especially when your firm's resources are already constrained— such as during tax season, quarterly filing, or year-end. And despite your best efforts, credit-eligible R&D investments may still remain undiscovered.

Some of the challenges that you and your clients may face include:

- Subjective determination of qualified R&D activities
- Exam agents either know too little or have specialized expertise
- How to support R&D Credits claimed with appropriate documentation
- Treatment of wages of high-level supervisors, executive compensation, and severance payments
- Treatment of funded research (e.g., time & materials contracts, strong IP clauses, Dynetics, Geosyntec, etc.)
- Claiming contract research services (65%) as supplies (100%)
- Treatment of noncore R&D functions (e.g., manufacturing, quality control, regulatory affairs, etc.)
- Numerous court cases, complex tax code and regulations
- Complex mechanics of the credit calculation ... acquisitions/dispositions, shrink-back rule, internal use software, adaptation, duplication, funded research, controlled group, market research, etc.

Good For Your CPA Firm?

Let's talk about how collaborating with a proven R&D Tax Credit expert can benefit your clients while being a lucrative partnership for your Firm.

Proven R&D Credit Success

ADP has helped organizations large and small—spanning numerous industries—successfully address the challenges identified above and capture significant R&D Credits.²



Architectural.
200-employee
architectural firm
captured a **\$2.5M** in
R&D Credits



Manufacturing.
13-employee
manufacturing business
captured a **\$100,000**
R&D Credit



Information Technology.
82-employee IT
business captured a
\$260,000 R&D Credit



Medical. **250-employee**
medical organization
captured a **\$500,000**
R&D Credit

Call On ADP Today.

We'll help your firm capitalize on revenue from the R&D Credit—without distracting your firm from its profitable core accounting work.

Rely on Your ADP Relationship

Your firm may already work with ADP to process payroll or for client referrals. Collaborating with ADP to deliver tax credit services to your clients brings your firm the credibility of a nationally-recognized brand, trusted for over 60 years. ADP has extensive experience in helping organizations identify and capture federal, state, and local tax credits and incentives for which they may be eligible, including:

- 40 years of tax credits expertise
- Helped clients capture \$1B+ in tax credits in FY18
- 400+ dedicated specialists
- 3,000+ clients (mid-sized to Fortune 1000 businesses)

Why ADP | Why Now?

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.

Focused Experts. ADP brings focused expertise for your client's unique industry—along with actual software engineers, mechanical engineers, and chemical engineers. We invest the time in reviewing not just R&D payroll expenses, but also the costs involved in various R&D processes across your client's organization.

Complementary Approach. Your longstanding familiarity with the client's financial history helps guide ADP's R&D study. ADP works alongside your firm, for the close collaboration you – and your client – expect.

Additional Revenue. R&D Credits are credited to the year in which the qualified R&D expenses were incurred. Creating and submitting amended tax returns could potentially help your firm earn additional revenue – from expert services that sit squarely within your firm's wheelhouse.

Low Risk. ADP helps identify the credit-eligible activities and expenses and prepare the R&D study. Our engagement significantly reduces the need for your firm to incur up-front expenses or allocate resources from limited available capacity (with no guarantee of any return.) And, ADP can deploy our team anywhere nationwide at any of your client's locations.

Trusted Reputation. Don't worry about diluting your firm's expertise and focus or disappointing your clients. Your firm can establish an additional revenue stream related to R&D Credits while relying on ADP for the focus and expertise R&D Credits demand.

Payroll Expertise. ADP can help ADP payroll clients take advantage of the federal R&D Credit for future growth in research and development activities. ADP will assist with filing IRS Form 8974.

¹ See IRC section 41 (2016); Protecting Americans from Tax Hikes Act of 2015, Consolidated Appropriations Act 2016 (P.L. 114-113), Division Q, H.R. 2029, 114th Congress (2015-2016).

² Based on 2016-2018 ADP internal data on service fee to actual R&D Credit value ratio.



Always Designing
for People™

About ADP SmartCompliance: The ADP SmartCompliance® platform adds a layer of services and best-practice processes to your current HCM solution to help you close the gap between core HCM technology and the myriad of HCM related compliance pressures you may face. This solution marries people, process and service with your technology to help off-load many of the risk-laden, manual and administrative tasks required of you. And it's a scalable solution that can provide continuity as your organization and the legislative landscape continue to evolve.