# Explore the World of **R&D Tax Credits**

Discover the paths that can lead to successfully capturing tax credits for which your clients may be eligible.

It begins with having the right tools and visualizing a clear path for success.



# **3 Keys to Unlocking the R&D Essentials**

Resolution of technical uncertainty through a process of experimentation

#### Wages

If **80%** of the activities of personnel involves conducting, directly supervising, and/or directly supporting qualified activities, then **100%** of clients' wages are qualified. Third Party Costs

### **Supplies**

Tangible raw materials that are not capitalized or depreciated.\*

Depending on the type of vendor conducting/supporting qualified research activities, amounts are statutory, limited to **65%/75%/100%**.

\*Excluding capitalized equipment & some types of cloud computing for software development or testing.



# Map Out Your Client's Investment in Innovation

## Follow the Path of Expenditures



**First**, start by looking at wages, prototyping activities or tooling supplies.



Next, look for third-party costs incurred from **1099** individuals or outside companies.



If the business is new to this and has never claimed the credit before, you can jump ahead by going back **3 years** to file for refunds.



**6% to 8%** of annual qualifying R&D expenses can be applied, dollar-for-dollar, against federal income tax liability.



Your clients can claim up to **\$250,000 per year** against payroll taxes.



If under \$5 million in gross receipts in the current year and no more than 5 years of generating gross receipts, including the current year, they're on track!

New businesses, meanwhile, can offset payroll taxes for up to



five years, with a maximum of **\$1.25 million in total credits** used on their quarterly federal payroll tax returns.

Your clients have made it through the eligible uncertainties, but they shouldn't stop: capturing the R&D tax credits already earned has just begun!



## **Steps to Reach Business – Growth Goals**



\$ Back Into The Business

Confirmed Cases = Qualified Credits

Interviews / Technical Memos / Records / Calculations

Business Products & Processes / Wages / Supplies / Contracts

IRC 41 / Precedent Case Law / IRS Guidance / Tax Law / Technical Experts

## A 4-Part Test That Lets Knowledge Be Their Guide

Research that satisfies a statutory "4-Part Test" qualifies for the federal tax credit. Locate your client's true north.



#### The Permitted Purpose

must relate to the development or improvement of either the functionality, reliability, or quality of a new or improved business component.

- Product
- Process
- Software
- FormulaTechnique
- Invention

#### The activity performed must be fundamentally **Technological in Nature**

- Physical Science
- Biological Science
- Engineering
- Computer Science

The activity must be intended to discover information to **Eliminate Uncertainty** 

- Capability
- Method
- Design

## The activity must involve a **Process of Experimentation**

- Modeling
- Simulation
- Trial and error
- Conceptualization

Now you're ready to explore the world of R&D on behalf of your clients, navigating their unique terrain with expert guidance.

# Get started!

Reach out to your support team at ADP or visit: adp.com/rdtc-cpa



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