



ADP SmartCompliance[®]

Tax Credits Module – Research & Development Tax Credit

Tax Credits Module

From small-to-mid-sized businesses (SMBs) to large enterprises, many companies operating across a spectrum of industries can benefit from recent federal tax law changes that extend and broaden the availability of research and development (R&D) tax credits. If your company invests in qualified research activities to improve or create products, manufacturing processes, or technologies, you may be able to reduce your income tax liability or your payroll tax liability.

The Savings Opportunity

The Protecting Americans from Tax Hikes (PATH) Act provides eligible companies with a federal tax credit for investing in the development of new or improved products, manufacturing processes, or technologies in the United States. Specifically, it permanently extends the pre-existing federal R&D credit and broadens the ability of many SMBs to take advantage of the federal credit.

More companies than ever may now be potentially eligible for the following significant benefits:

- Improving your business' cash flow through federal R&D tax credits.
- Positively impacting your financial statements.
- Receiving a tax benefit and dollar-for-dollar tax savings of up to 20 percent of the eligible R&D spending above a base amount calculated from prior years.
- Claiming up to a \$250,000 tax credit against federal payroll tax liability for qualified SMBs, and carrying forward federal R&D tax credits for up to 20 years.
- Reduced job minimums for less-developed locations. Examples of eligible industries include manufacturing, R&D, warehousing & distribution, call centers, back office operations, headquarters, and tourism.
- Application and state approval required

The PATH Act also allows eligible SMBs to use the federal R&D credit to help offset their Alternative Minimum Tax (AMT) liability—meaning that an eligible SMB may be able to reduce its federal tax liability with the federal R&D credit, regardless of whether it pays regular tax or AMT.

Is Your Company Performing R&D Activities?

If your company views R&D as, for example, only people wearing lab coats and using test tubes, it might be missing out on potential tax savings. The term "research and development" is broad and includes creating or improving a manufacturing process, developing or improving a product, developing computer software, etc. While not an exhaustive list, here are a few R&D activities that generally qualify for the federal tax credit:

Developing, modifying, designing, supporting, or supervising research activities for:

- New or improved products, manufacturing processes, formulations, or systems
- Internal software solutions or applications
- Prototypes or pilot models
- Product and material alternatives and substitutions
- Technology transfers

The Eligibility & Documentation Process

While the federal R&D tax credit can be beneficial for a broad range of companies, the eligibility and documentation requirements are stringent and complex. Companies claiming the credit, should be prepared to perform a study that involves identifying, documenting, and supporting the eligible expenses generally associated with qualified R&D activities, including contract research, supplies, and internal wages.

The importance of having these R&D studies performed accurately needs to be a priority. In some instances, businesses could potentially face penalties imposed by the Internal Revenue Service (IRS) if they claim the federal credit but the activities and expenses are not eligible or otherwise properly identified and documented.

The eligibility and documentation requirements involved in producing an R&D study can be a significant undertaking. Because of the penalties for inaccurate filings, claiming the federal R&D tax credit can be costly if the eligible research activities and expenses are not properly qualified and documented. Yet, with access to wage and payroll information and with guidance from experienced tax professionals, your company can assemble the documentation needed to help claim and substantiate the federal R&D credit.

How ADP® and KPMG Can Help You

ADP and KPMG LLP (KPMG)—the U.S. tax, audit, and advisory firm—can provide a thorough R&D study and assemble the supporting documentation needed to help capture the federal R&D credits your company may be eligible to claim.

Because wage information is required to complete any assessment of R&D activity, ADP can help you make the identification and documentation of qualified R&D costs and activities more efficient and effective.

The over 400 tax partners and professionals in KPMG's Research Credit Services practice, who include accountants, software engineers, and mechanical engineers, can then help you identify and document qualified research activities, the amount of the federal R&D tax credit for which your company may be eligible, and assist with any tax compliance related filings.

The R&D Tax Credit Offering

By leveraging the capability of ADP to access your business' payroll information* along with KPMG's national team of Research Credit Services tax professionals, your company may be able to identify and capture the available tax credits associated with your R&D investments.

Typically, a project takes four to twelve weeks to fully complete and encompasses the following:

- A free initial assessment to estimate the potential federal R&D credit benefit for which your company may be eligible.
- Competitive, flat-rate pricing.
- An experienced team with deep knowledge of the laws and regulations applicable to the federal R&D tax credit, including team members that previously worked at the Treasury Department and the IRS and even helped to write such regulations.
- A transparent approach—including descriptions of methodology and procedures used—to deliver the study and documentation that supports the R&D credit amounts.
- A streamlined, efficient client experience.
- A thorough study reviewing qualified expenses associated with R&D activities.
- A documented calculation template, delivered by a team of experienced KPMG tax professionals, to support the claimed R&D credits.
- Adherence to high professional standards.

To learn more about ADP and KPMG's new federal R&D tax credit offering, please go to <http://info.adp.com/RDTaxCredit>

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).

*Applies to ADP payroll clients

About ADP SmartCompliance

The ADP SmartCompliance platform adds a layer of services and best-practice processes to your current HCM-related solution to help you close the gap between core HCM-related technology and the myriad of HCM-related compliance pressures you may face. This solution marries people, process, and service with your technology to help offload many of the risk-laden, manual and administrative tasks required of you. Plus, it's a scalable solution that can provide continuity as your organization and the legislative landscape continue to evolve. For more information about the ADP SmartCompliance tax credits module, contact your local ADP Representative or visit www.adp.com/taxcredits.

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