

R&D Credits Available for Businesses

Gary Price, Tax Partner and Clean Technology Practice Leader with Sensiba San Filippo, outlines the R&D credits available for small businesses.

What is the Credit for Increasing Research Activities?

If you are engaged in research and development activities within the United States, you may be able to take advantage of the research credit. Businesses with qualified research activities can claim a credit to offset tax owed on the company's income tax return. The credit amount is a percentage of the current year research expenses compared with prior year research expenses. If the business's research expenses increase over previous years, the company will generate a credit.

What are qualifying research activities?

The research credit is available to taxpayers engaging in qualified research activities. In order for the research activities to qualify for the credit, all of the following requirements must be met:

- Research is performed to discover information about improving or developing a business product or process.
- The information discovered is technological in nature.
- Research is conducted through a process of experimentation.
- Research relates to a new or improved function, performance, reliability or quality.

Discovery of Information

Research activities will meet the information discovery requirement if they eliminate uncertainty about the development or improvement of a product or process. Uncertainty exists if you do not have information available to determine if you are capable of developing or improving a business component. You do not have to succeed in developing or improving a product or process.

Research is Technological

The research activities will be considered technological in nature if they rely on physical, biological, engineering or computer sciences. You can rely on existing technological information and do not need to discover a new scientific principle to qualify for the credit. A patent is conclusive evidence that you have discovered technological information, but you do not need to receive a patent in order to qualify for the credit.



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Gary is a Tax Partner with Sensiba San Filippo LLP with over 25 years experience providing business, accounting and tax services for closely-held companies, with a particular specialization in serving private equity firms and real estate investment/development companies. Gary specializes in mergers and acquisitions, strategic business planning, operational and financial analysis, capital and investment needs, and the analysis of business financing alternatives.

He has proven entrepreneurial skills as a co-founder of high technology start-up companies, and experience in the venture capital, high technology, biotechnology, medical device, construction, and real estate fields.

Gary has a Masters Degree in Business Administration, with an emphasis in accounting and finance, and a Bachelors Degree in computer science and math. He is a CPA in both California and Florida, and a member of the American Institute of Certified Public Accountants, the Management Services division and Information Technology division of American Institute of Certified Public Accountants, and the California Society of Certified Public Accountants. He has served as a special limited partner reviewing deal flow for venture capital firms, and continues to serve on the board of directors for a number of community organizations.

Process of Experimentation

The research activities must follow a process of evaluating different alternatives to see what achieves the desired result. The business needs to identify what is uncertain about the development of a new product, identify different alternatives for overcoming the problem, and conduct experiments to evaluate the different alternatives.

New or Improved Function

The research activities must be performed for a qualified purpose. The research will qualify if it relates to new or improved function, performance, reliability or quality of a product or process. Research will not qualify if it relates to style, taste, cosmetic, or seasonal design. Other activities that don't qualify are efficiency surveys, market research or testing, data collection and quality control testing.

Are there any other restrictions on research activities?

The research must be performed in the United States or Puerto Rico in order to qualify for the credit. The research can't be performed after commercial production of the product has begun. Research to adapt an existing product to a particular customer's requirement doesn't qualify. The development of software for internal use is not a qualified research activity. In general, qualified research doesn't include research funded by any grant, contract or by another person.

What type of expenses qualify for the credit?

The credit amount is based on three types of expenses - wages, supplies, and contract expenses paid to a third party for qualified research. For employee wages to qualify, the employee has to either be performing research or directly supervising other employees doing research. Supplies includes any supplies used in research activities but not equipment that is capitalized as a fixed asset. Contract expenses include amounts paid to any person except an employee for qualified research performed on behalf of the business.

How much is the credit amount?

The credit amount is based on the amount of qualifying research expenses compared with prior year research expenses. If the business didn't have many research activities in prior years, the credit will be approximately 6.5% of the current year research expenses. There is also an alternative method for calculating the credit if the business doesn't generate any credit under the regular method.

When can I claim the credit?

The research credit is currently authorized for expenses incurred through December 31, 2011. However, Congress has renewed the credit in the past and is likely to reauthorize it again.

What are the reporting requirements?

The research credit is claimed on Form 6765 "Credit for Increasing Research Activities" and is attached to your federal tax return. In addition, many states have separate research credits to offset state income tax.

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What if my business doesn't pay any income tax?

If your business has a loss or doesn't pay taxes for some other reason, it may still make sense for you to claim the research credit. The research credit can be carried forward for twenty years to offset future tax or carried back one year to offset prior year tax.

ABOUT SENSIBA SAN FILIPPO

Sensiba San Filippo (SSF) is one of the largest Northern California based CPA and Business consulting firms, focused on providing superior client service, deep technical expertise, and a passion for the industries we serve, to clients throughout the San Francisco Bay Area. We are a boutique sized firm by choice, allowing us to deliver proactive and personalized service, while delivering a depth of knowledge and technical expertise that is comparable to that of a national or a "Big Four" firm.

SSF is comprised of 16 partners and approximately 100 professionals, located at four offices across the Bay Area including Pleasanton, San Mateo, San Jose and Morgan Hill. Our partners are nationally recognized for their superior industry and technical expertise by leading publications such as the Wall Street Journal, New York Times, Business Week, and Reuters. SSF is a member of Kingston Sorel International (www.ksi.org), an international network of accounting firms, providing services across 50 countries.

The Sensiba San Filippo team is committed to establishing and maintaining long-term relationships with our clients, with our success based on a foundation of trust, integrity and superior client service; for this reason, SSF has one of the highest client retention rates in the industry.

**What differentiates SSF is simple – it is our focus on client service
and our deep technical and industry expertise**

SSF SERVICES

Assurance, Advisory & Review

The SSF Assurance team provides Financial Statement complications, audits and reviews for the benefit of company management as well as to provide the reliable, standardized, accurate reports to interested stakeholders — its creditors, investors, vendors, or even potential acquirers. Our professional's will help you to prepare and proactively anticipate what vendors will need as they assess your company, and to best prepare in response to any questions or feedback.

Tax Planning & Compliance

SSF's tax team arms clients with the tax knowledge and analysis to both manage risk and leverage opportunities best suited for their business to prosper. Our active involvement in KS International provides access to local tax and business practices in over 50 countries across the globe. The team provides comprehensive tax planning and compliance services, including all preparation and filing requirements, and procurement of applicable tax credits.

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Accounting Services

SSF's Accounting Services team helps businesses of all sizes produce timely, meaningful financial statements providing substantive and accurate information for decision making. The improved process and timeliness achieved through working with our Accounting Services team may also help reduce the costs of an annual financial statement review or audit. Services include:

- Periodic financial statement compilation / preparation
- In-house close assistance, process development and standardization
- QuickBooks training / bookkeeping services
- Fixed asset / depreciation projects
- Accounting training
- Account reconciliations
- Chart of accounts setup and / or review

Business Consulting

SSF's Business Consulting team is dedicated to helping your company identify and execute on its unique formula. From corporate governance and operational adjustments to cash flow management pro forma / forecasting, management reporting, profitability analysis, international expansion support and guidance, exit strategy planning, our experienced professionals will provide your company with actionable strategies that will help improve your bottom line.

Mergers & Acquisitions

As a leading accounting firm, SSF is well-versed in the intricacies of M&A transactions - whether clients are looking for a successful buyout or to prepare for an acquisition, SSF can advise you through the process ensuring that decisions are made with your best interests in mind. Services include:

- Business plan preparation
- Tax planning
- NOL leverage / planning
- Recasting historical financial statements
- ESOP consultation and planning
- Exit strategy development and implementation
- Offer evaluation
- Team selection
- Transaction negotiation
- Due diligence / Target assessment

Contact us today to learn how SSF's integrated team of experts can help your business at info@ssflp.com, or at 925-271-8700. You may also visit us online at www.ssflp.com.

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