

CFO Call Series

R&D Tax Credit: The Government
Will Reimburse Your R&D Expenditures.
How to Get Cash Now.

February 12, 2021



R&D Tax Credit

The Tax Code

The research credit is generally allowed for expenses paid or incurred for qualified research. Qualified research means research for which expenses may be treated as section 174 expenses. This research must be undertaken for discovering information that is technological in nature, and its application must be intended for use in developing a new or improved business component of the taxpayer. In addition, substantially all of the activities of the research must be elements of a process of experimentation relating to a new or improved function, performance, reliability, or quality. All of the research activities must be applied separately with respect to each business component of the taxpayer.



R&D Tax Credit

Generally Not Included

- Research funded by another person, entity or governmental entity.
- Research adapting an existing product or process to a particular customer's need.
- Duplication of an existing product or process.
- Surveys or studies.
- Research conducted after the beginning of commercial production.
- Research relating to certain internal-use computer software
- Research conducted outside the United States, Puerto Rico, or a U.S. possession.
- Research in the social sciences, arts, or humanities.



“Basic Research Payment”

"Basic research payment" means, with respect to any taxable year, any amount paid in cash during such taxable year by a corporation to any qualified organization for basic research but only if— (i) such payment is pursuant to a written agreement between such corporation and such qualified organization, and (ii) such basic research is to be performed by such qualified organization.



“Qualified Organization” Means

(A) Any educational organization which -

(i) is an institution of higher education (within the meaning of), and (ii) is described in section 170(b)(1)(A)(ii).

(B) Any organization not described in subparagraph (A) which— (i) is described in Section 501 (c)(3) and is exempt from tax under section 501(a), (ii) is organized and operated primarily to conduct scientific research, and (iii) is not a private foundation.



SAMPLE WORKSHEET

01	Amounts paid to an energy consortia	--
02	Payments to qualified organizations	--
03	Qualified organization base period amount	--
04	Subtract line 03 from line 02, if \$0, enter \$0	\$0
05	Wages for qualified services	\$1,945,000
	+ Cost of supplies	\$285,000
	+ Rental or lease costs of computers	\$65,000
	+ Enter applicable % of contract research exp.	<u>\$213,000</u>
06	Total qualified research expenses	\$2,508,000

SAMPLE WORKSHEET - con't

07	Fixed-base %, but not >16%	3%
08	Average annual gross receipts	\$38,250
09	Multiply line 08 by % line 07	\$1,148
10	Subtract line 09 from line 06 "Total qual. Exp"	\$2,506,800
11	Multiple line 06 by 50%	\$1,254,000
12	Enter smaller of line 07 or 08	\$1,254,000
13	Add lines 01, 04 and 12	\$1,254,000
14	Multiple line 13 by 20%	\$250,800



Charles River CFO welcomes the opportunity to work with your company to provide part-time and interim CFO, accounting, tax, and human resource services.

We are smart, nimble, and flexible.

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