

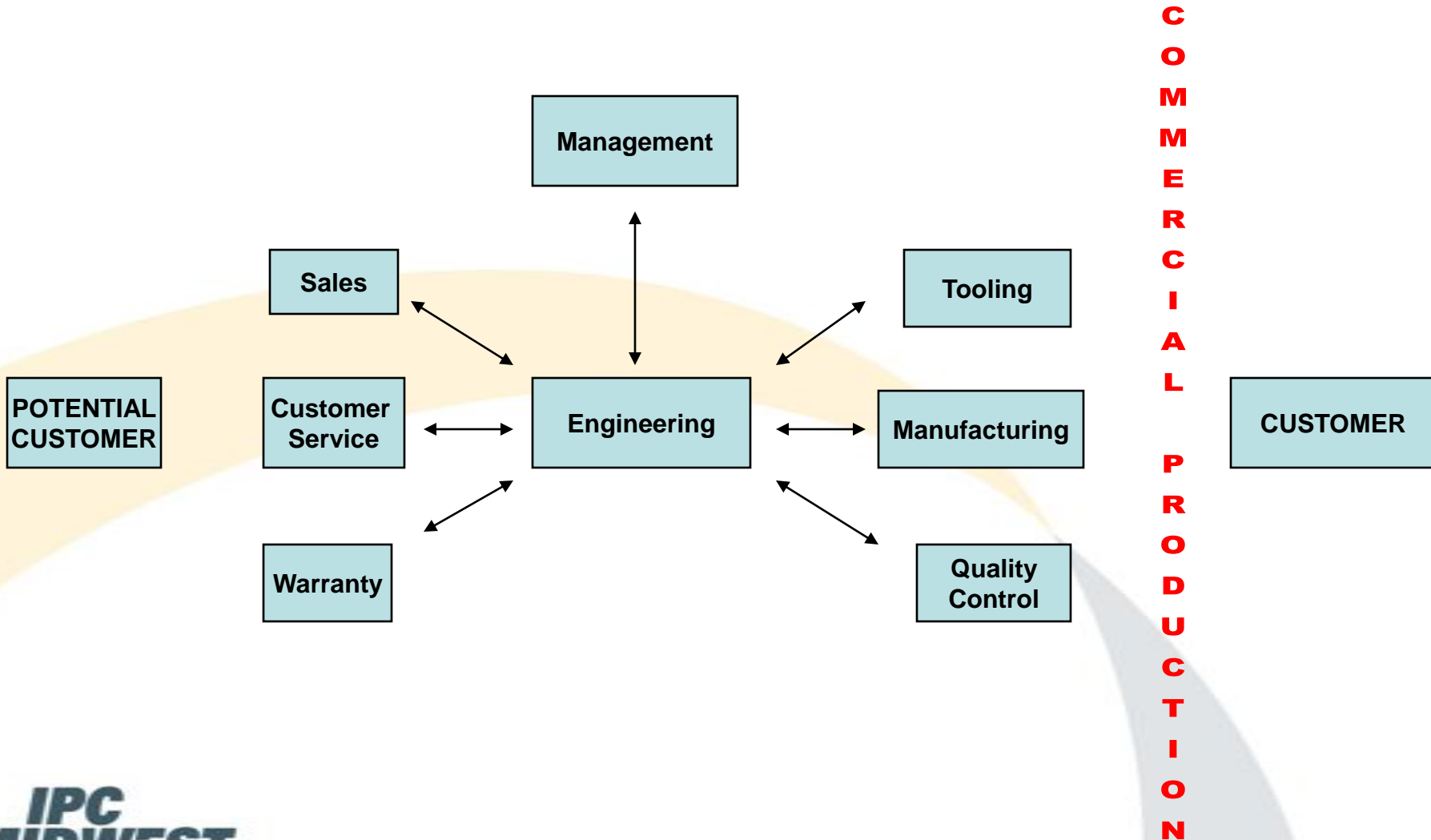
Section 41 Research & Experimentation Tax Credit

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Executive Summary

- Rewards businesses with a dollar for dollar reduction of tax
- Rewards “evolutionary” and “revolutionary” activities
- Federal tax benefit can be as high as 6.5% of investment in new products and processes
- Ability to file retroactively

Your Company and the Credit



Qualification

- Technological in Nature § 41(d)(1)(B)(i)
- The Uncertainty Test § 41(d)(1)(A)
- Process of Experimentation
§ 41(d)(1)(C)
- Permitted Purpose § 41(d)(1)(B)(ii)

Technological in Nature

- “Discovery” of information that is technological in nature
- Must involve the “hard sciences”
- Can be “evolutionary” as well as “revolutionary”

The Uncertainty Test

- Routine engineering versus qualified research
- The project or process must possess technical uncertainty related to:
 - Capability
 - Method
 - Design/Function

Process of Experimentation

- A “testing” process must be performed prior to commercial production
 - Trial and Error
 - Virtual and Physical
- No regard to success or failure

Permitted Purpose

- Must relate to improved efficiency, function, performance, reliability, or quality
- Complying with federal, state, or industry regulatory agency standards
- Efforts related to style, taste, cosmetic, or seasonal design factors do not qualify

Quantification

- Box 1, W-2 Wages
- Supplies
- Contract Research

Qualified Wages

- Performing qualified research
- Technical supervision of qualified research
- Technical support of qualified research
- “Substantially All” rule per § 41(b)(2)

Qualified Supplies

- Consumed during the process of qualified research
- Prototypes and samples given to customers, but not sold to customers
- Does not include:
 - Capital assets
 - Overhead costs

Contract Research

- Any amount paid or incurred by the taxpayer to any person/company for qualified research
- Includable up to 65%
- Taxpayer must bear the economic risk of the project

Credit Calculation

- Standard calculation (Prior to 1/1/1984)
- Start-up company (Post 1/1/1984)
- Alternative Incremental Research Credit (AIRC)
- Alternative Simplified Credit (January 1, 2007)

Latest on § 41 R&E Tax Credit

- IRS Directive, April 6, 2007
 - Claims now considered Tier 1 Issue
 - Prevents nonqualified companies from claiming credit
- “Permanently, Temporary” Credit
- Potentially more lucrative in future years

Areas of Increased IRS Scrutiny

- Base Period Documentation
 - Financial
 - Project
- Mergers/Acquisitions
- Management's involvement in R&E
- Evidence of Experimentation
- Prototype/Sample Costs

How to Choose a Provider

- Hourly or Flat Fee Compensation
- Combination of engineering and accounting disciplines
- On-site fieldwork
- Case built prior to claims filed

Contact Information

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