



How can Startups Benefit from a R&D Study?

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For many startup companies, money is tight and income (if any) is low. Since these companies are not having to pay any federal or state income tax, they are generally not interested in spending money to perform research and development (“R&D”) tax credit studies because they do not believe they can actually use their R&D tax credits. Many entrepreneurs think, why should I invest money now and wait to use the benefit at some point in the future? Does this even make sense for me and my company?

Another reason startup companies may be unwilling to engage a tax specialist to assist in the calculation and substantiation of an R&D tax credit is because they believe they are unable to utilize the credit in the current year and cannot spend their limited cash on a study that results in a credit to be used at an unknown time in the future.

Fortunately, beginning in the 2016 tax year, startup companies can use all or part of the federal R&D credit to offset payroll tax liability if they meet the following criteria: 1) have less than \$5 million in gross receipts; and 2) have only had gross receipts for a maximum of 5 years. They can offset the credit up to \$250,000/year against the employer’s portion of FICA taxes.

What does this change mean?

It means startup companies can begin monetizing the R&D credit in the current year, allowing them to keep cash in their pockets. Georgia also follows a similar approach, as it allows the GA credit to be used to offset GA payroll withholding taxes; however, one difference is that this benefit applies to all companies, regardless of age or revenue. The Georgia R&D credit can equal up to 10% of Georgia qualified expenses.

Some taxpayers are still on the fence about having an R&D tax credit study completed because of not being able to utilize the credit against income tax liability. Those taxpayers should evaluate the benefit of applying the Federal credit against FICA taxes and the Georgia credit against Georgia payroll tax withholding, which enables them to recognize the benefit sooner.

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Why should companies complete an R&D study?

There are other factors to consider when deciding whether to proceed with a current year study or delay until the credit can be utilized. As the years pass, it becomes more difficult to calculate and substantiate a credit claim. This could be due to changes in personnel or poor record retention policies. The delay in performing a study could make it more expensive and time consuming for the taxpayer.

Second, completing a study every year allows the taxpayer to select elections that must be made on timely filed returns. This will help keep all records up to date.

Finally, a taxpayer typically can only amend tax returns for the prior three years. If too many years pass before the decision is made to perform a R&D tax credit study, then the taxpayer may lose the ability to claim a credit in closed tax years.

For more information about the R&D tax credit or for a free consultation, please contact Betsi Barrett at 770.396.2200.