



ADP SmartCompliance[®]

Tax Credits Module — Research & Development (R&D)

Research and Development Tax Credits

From small-to-mid-sized businesses (SMBs) to large enterprises, many companies operating across a spectrum of industries can benefit from federal tax laws that extend and broaden the availability of research and development (R&D) tax credits. If your company invests in qualified research activities, 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) Act¹ permanently extends the pre-existing federal R&D tax credit (the “R&D Credit”) and broadens the ability of eligible small-to-mid-sized (SMB) companies to take advantage of the federal credit for investing in the development of new or improved products, manufacturing processes or technologies in the United States.

More Companies Than Ever May Be Eligible for the Following Significant Benefits from the R&D Credit:

- Improving your business' cash flow through the R&D Credit
- 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 unused R&D Credits for up to 20 years

Examples of eligible industries include manufacturing, R&D, warehousing and distribution, call centers, back office operations, headquarters and tourism. The PATH Act also allows eligible SMBs to use the R&D Credit to help offset their Alternative Minimum Tax (AMT) liability, which means that an eligible SMB may be able to reduce its federal tax liability with the R&D Credit regardless

of whether it pays regular tax or AMT. If your company views R&D as 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 developing or improving a product, creating or improving a process, developing computer software and more. While not an exhaustive list, here are a few R&D activities that generally qualify for the federal tax credit.

Is Your Company Performing R&D Activities?

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 to wider distribution among more people and places

The Eligibility & Documentation Process

While the R&D Credit can be beneficial for a broad range of companies, the eligibility and documentation requirements are stringent and complex. Companies claiming the R&D Credit should be prepared to perform a study that involves identifying, documenting and supporting the eligible expenses incurred in connection 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 face penalties and/or interest imposed by the Internal Revenue Service (IRS) if they claim the R&D Credit but the activities and expenses are not eligible or otherwise properly identified and documented.

The eligibility and documentation requirements for an R&D study can be a significant undertaking. Because of the potential penalties and/or interest for inaccurate filings, claiming the R&D 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 R&D Credits for which it is eligible.

How ADP® Can Help You

ADP can provide a thorough R&D study and assemble the supporting documentation needed to help capture the R&D Credits your company may be eligible to claim. ADP can help you make the identification and documentation of qualified R&D costs and activities more efficient and effective because wage information is required to complete any assessment of R&D activity.

The R&D Tax Credit Offering

For ADP payroll clients, our team can access your payroll data internally to help reduce the burden on you. And, we also have extensive experience handling payroll data for our clients from a variety of other third-party payroll systems—so you can be confident in our ability to work with your company. Because payroll wages are critical to complete an R&D study, ADP's national team of tax professionals is best positioned to securely obtain your payroll information to help you identify, document and capture qualified tax credits associated with your R&D investments. A team of R&D experts helps you maximize your identification and capture of R&D Credits for which you are eligible and mitigate the associated risk.

This consultative relationship offers the following value:

- Dedicated team of R&D experts who is specially trained to help you maximize your credits
- Free initial assessment to estimate the potential federal and state R&D tax credits for which your company may be eligible
- Transparent and seamless relationship to help you determine the best approach to optimize the R&D Credit
- A thorough study reviewing qualified expenses associated with R&D activities delivered by a team of experienced tax professionals to help you support the claimed R&D credits

Return on Investment

Our significance is clear from the instant you meet with our team:

- Clients average four to five times return on investment (ROI)²
- Our success-based fee helps ensure that we provide you with maximum performance

To learn more about ADP's new federal R&D tax credit offering, please go to adp.com/taxcredits

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).

² Based on 2016-2018 ADP internal data on service fee to actual R&D Credit value ratio.



About ADP SmartCompliance: The ADP SmartCompliance® platform adds a layer of services and best-practice processes to your current HCM solution to help you close the gap between core HCM technology and the myriad of HCM related compliance pressures you may face. This solution marries people, process and service with your technology to help off-load many of the risk-laden, manual and administrative tasks required of you. And it's a scalable solution that can provide continuity as your organization and the legislative landscape continue to evolve.