



A Message from the Tax Practice Group

Research & Development Credit... Expired?

Innovation is important to the success and growth of an economy, but there is a cost associated with this. Governments around the world recognize the additional cost of research and development (R&D), and provide incentives, such as the tax credit, to encourage businesses to invest in the R&D intended to drive growth within their borders. The U.S. allows an R&D credit to help with the additional expense incurred.

Interestingly, the R&D credit has expired as of December 31, 2011, though many professionals feel it is alive and kicking. However, the R&D credit has previously expired nine times, and was retroactively reinstated. There are bills currently in legislation that would permanently extend the R&D credit and simplify the calculation. Did you know it became easier to qualify for the R&D credit by electing the alternative simplified credit (ASC) versus the traditional R&D credit? Not only is the R&D credit often overlooked due to complexities of the calculation, but many companies believe you must have an on-site laboratory, and develop some breakthrough technology. Did you know that research does not have to be successful in order to qualify for the R&D credit?

You may have been discouraged in the past but please don't hesitate to call us and let us help determine if you are missing valuable tax savings.

All the best,

George and Mike
Tax Practice Group
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THINGS TO KNOW

1. Various types of businesses qualify for the R&D credit. **The rule of thumb is if you have an engineer on-staff, you probably have R&D.**
2. Companies that did not qualify for the R&D credit due to high base cost would probably qualify for the credit under ASC.
3. The ASC methods allow you to claim the research credit, even if the research cost remains the same or even declines when compared to prior years.



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Did you know?

1. The traditional R&D tax credit is calculated on the basis of increase in research activities and expenditures.
2. Research activities must take place in the United States, Puerto Rico, or a possession of the United States.
3. Research must be intended to discover information that would eliminate uncertainty.
4. The unused R&D credit generally can be carried back one year and forward 20 years.
5. The traditional R&D credit provides a credit of 20% of basic research payments that are above a base period.
6. The ASC method is equal to 14% of qualified research expenses that exceed 50% of the average qualified research expenses for the preceding 3 years.
7. Rhode Island only allows the credit for “C” corporations.

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