



— ARIZONA —
SMALL BUSINESS
BOOT CAMP



Demystifying ^{News} Research & Development (R&D) Tax Credits

PRESENTED BY

Tiffany Bisconer, CPA, MS, MAFM



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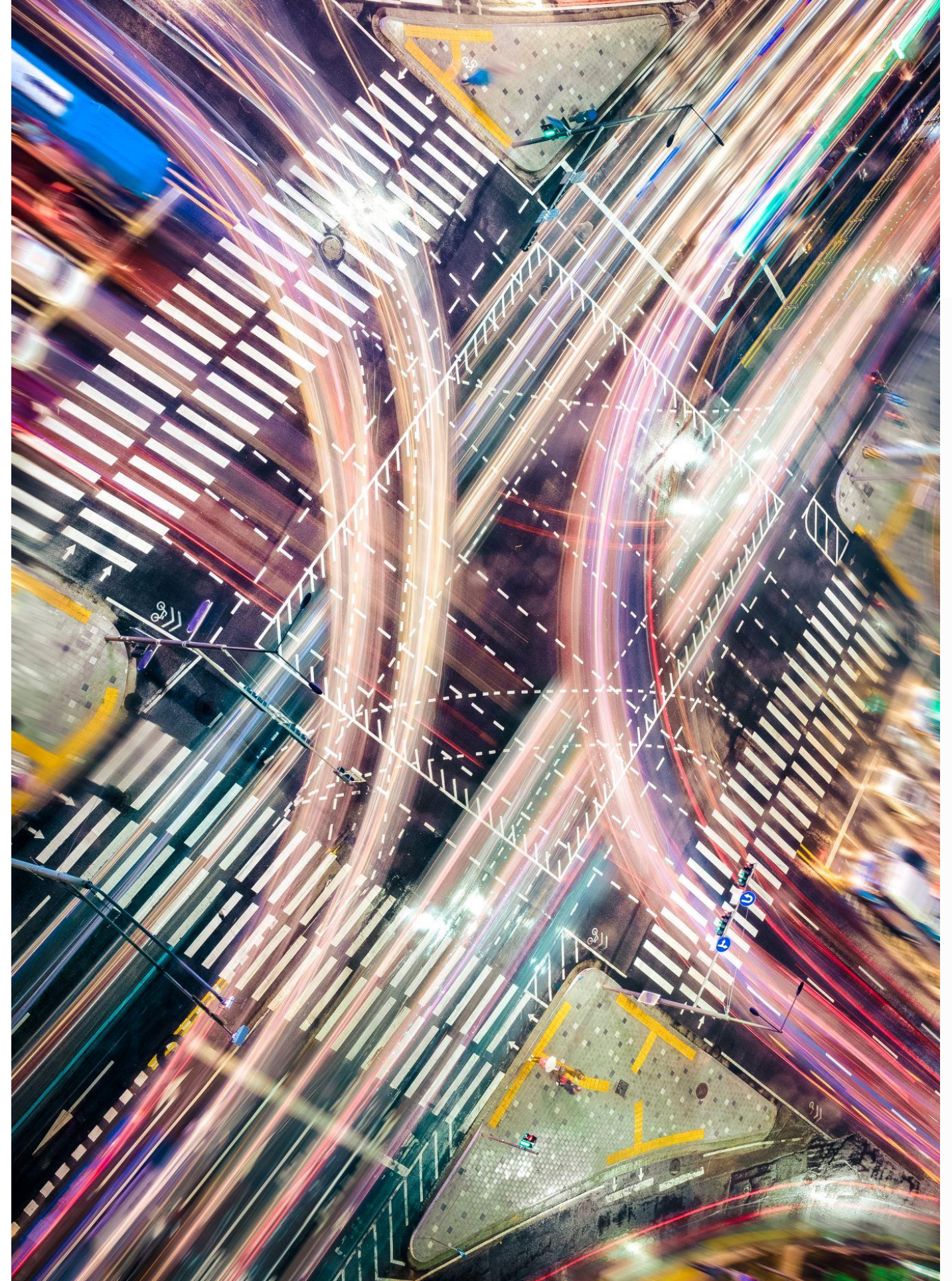
The only way you survive is you continuously transform into something else. It's this idea of continuous transformation that makes you an innovation company.

- Ginni Rometty, IBM

CASE STUDY #1

AV Company: \$15M in Sales

Audio Visual company was hired to design a system for the administrative building of a hospital. They were tasked with implementing integrated audio video distribution in a number of conference rooms and boardrooms. They completed several rounds of design iterations. Once approved, they finalized drawings and an initial programming design. It was clear this project was R&D intensive.



Qualified Research Expenditures

Labor: \$1,393,061

Materials: \$18,333

R&D Tax Credit

Federal Tax Credit: \$108,354

Arizona Tax Credit: \$161,721

TOTAL BENEFIT: \$270,075

CASE STUDY #2

Software Company: Pre-Revenue

Start-up software company established a year ago that is developing a platform that will offer project tracking for businesses that utilizes blockchain technology. They are still building their MVP and have no sales.



Qualified Research Expenditures

Labor: \$497,500

Independent Contractors: \$250,000

Materials: \$11,575

R&D Tax Credit

Federal Payroll Tax Credit (FICA): \$52,494

Arizona Refundable Tax Credit: \$60,373

TOTAL BENEFIT: \$112,867



Is my business doing R&D?

Making your products or processes better, faster, and cheaper can qualify for R&D tax credits.



“The future belongs to those who learn more skills and combine them in creative ways.”

Robert Greene, Mastery

What businesses naturally do in order to stay competitive and relevant will lead them to innovate. Often, the necessity of combining technical skill with creativity will lead to R&D.

40 Years

First enacted in 1981

Congressional Intent

To incentivize US based
businesses

Clarified Applicability

Case law and subsequent
revisions

Across All Industries

An activities-based credit

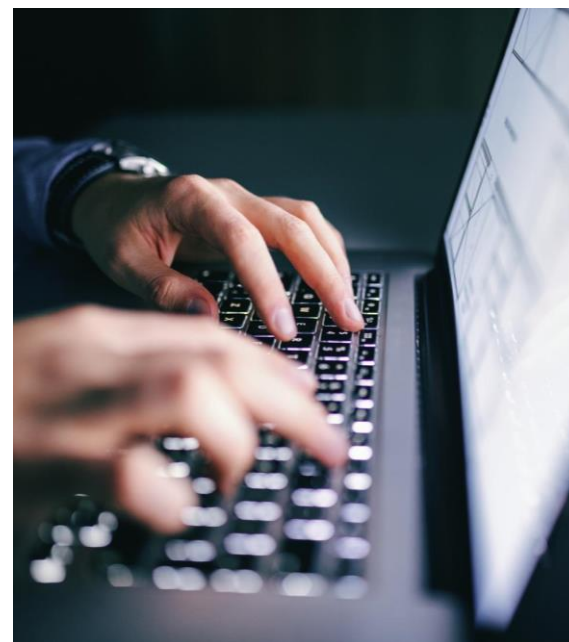
PATH Act of 2015

Influential changes for
start-ups and small
businesses

Increased Benefits

Federal and state tax
credits

*Does my
business
qualify for
the R&D Tax
Credit?*



Business Component

Development or improvement of a product, process, formula, technique, software or invention for the sale or use by customers. Functional in nature.

Technical Uncertainty & Experimentation

Identifying and eliminating technical uncertainties (unknowns) through a process of evaluating alternatives.

Scientific Principles

Process of experimentation is grounded in the hard sciences: engineering, computer science, biology, chemistry, physics, etc.

R&D Timeline

Rinse & Repeat



Concept Inception

The R&D clock starts at concept inception.

Heart of R&D

Design engineering, prototype development, and testing.
Uncertainty and the evaluation of alternatives.

Commercial Production

The R&D clock stops when technical uncertainties have been satisfied *OR* the project failed.



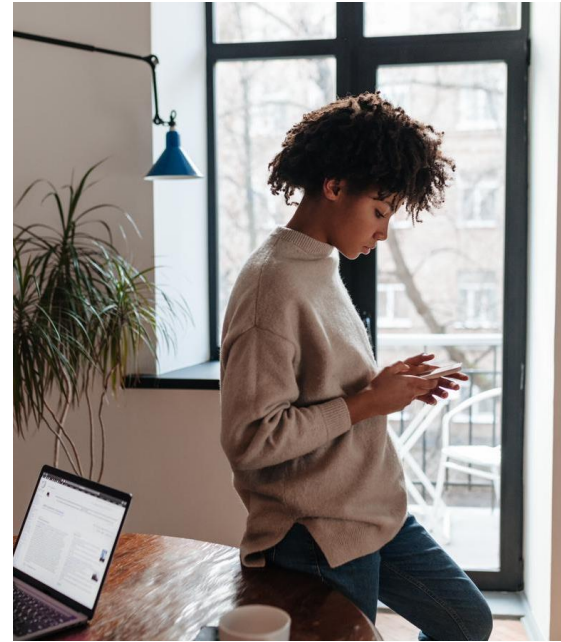
**"There is no innovation
and creativity without
failure. Period."**

Dr. Brene Brown

FAILURES COUNT!!

Project success is not a
requirement to claim the credits.

How is the credit calculated?



WAGES

US Based Labor

Three Levels: Direct supervision, direct support and those performing qualified activities.

CONTRACT RESEARCH

Independent Contractors

Outside testing facilities, outsourced design, programming, etc.

SUPPLIES

Tangible non-depreciable supplies

Materials used in the process of experimentation and computer rental costs.

What are the benefits?

Dollar for Dollar Reduction in Income Taxes

Recoup a percentage of your qualified R&D expenses in the form of tax credits to reduce tax payments going out and/or receive refunds.

Payroll Tax Offset for Pre-Revenue & Start-ups

Qualified small business can elect to offset up to \$250k per year towards the federal portion of payroll taxes.

Fund Future Growth

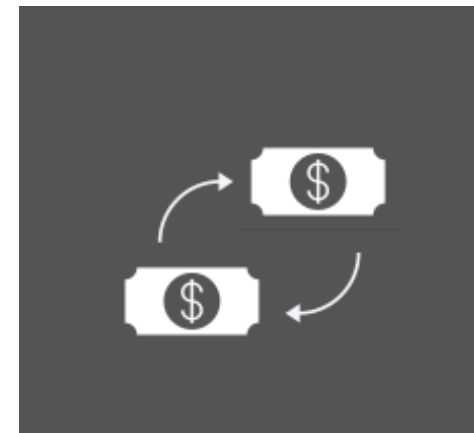
By reducing cash going out for taxes and/or increasing cash coming into your business, you can strategically reinvest in your business growth.

Applying Benefit

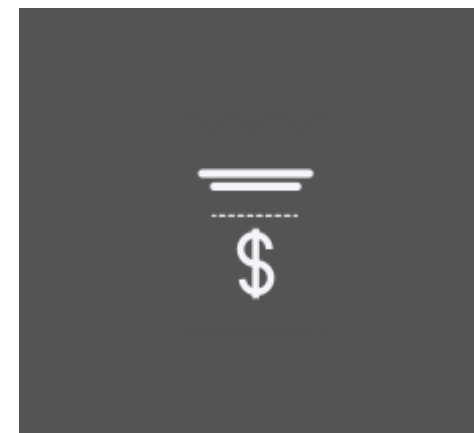
Utilization of R&D Tax Credits



Lookback Period



Current & Future Tax
Liability



Federal Payroll Taxes

Optimizing the R&D Tax Credit



**Capturing Appropriate Data
– Projects & Expenses**



**Understanding Rights &
Risk**



**Beyond Core
Product/Service**



Capital Allocation Strategy

Common Qualifying Industries

Manufacturing

Product and process development or improvement, design of new machines, use of materials, prototypes, software, testing, modeling, etc.

Information

New and improved software and/or hardware, storage technologies, cloud services, mobile platforms, algorithm development, systems integration, etc.

Formulations

Development or improvement of cosmetics, supplements, natural foods, beer, etc.

Professional Services

Design engineering, new or improved software development, process development, flow engineering, civil engineering, etc.

What now?

- 1. R&D Discovery Session w/R&D Tax Credit Expert.**
- 2. Explore the potential of recapturing taxes paid in the past.**
- 3. Proactive planning to invest in growth, while reducing tax payments.**



Questions?

Thank you!

Contact Information

www.AcenaConsulting.com

Phone

623-208-7418

Email

Tiffany.Bisconer@acenaconsulting.com

