Is Your Company Performing R&D Activities?

Your company might be missing out on potential tax savings. The term “research and development” is broad and includes creating or improving engineering processes, developing or improving a product, developing computer software and more. While not an exhaustive list, here are a few R&D activities that generally qualify for federal tax credit.

Developing, modifying, designing, supporting or supervising research activities for:

- Product design, development, and testing new scientific theories and research methods
- Prototypes of new products or extending the shelf life of existing products
- Creation of therapeutics, repurposing or reformulating existing drugs
- Designing wearables and digital health devices to monitor health and physical activity
- Establishing new technologies to further telemedicine
- Innovation in robotics, artificial intelligence or other new technology into existing products
- Designing new drugs, chemical compounds or medical devices
- New or unique blending technology or delivery systems for compounds or medicines
- Design and execution in experiments or trials

Research and Development Tax Credits

Life Sciences / biotechnology companies invest substantial amounts of time performing research and development (R&D) activities. These activities often involve significant expenditure in developing, designing and testing new scientific theories, associated with the creation of therapeutics, drugs and devices. Even if the development was not considered successful, companies like yours can benefit from federal tax laws that extend and broaden the availability of 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

While the Federal R&D Tax Credit was made permanent in 2015, additional legislation has been enacted to continue to encourage R&D expenditures in engineering, physical, biological and computer sciences. Starting with the Protecting Americans from Tax Hikes (PATH) Act, additional provisions were included in the 2022 Inflation Reduction Act. States have also begun to offer similar incentives for R&D expenditures, such as the State of Georgia’s Jobs Tax Credit.

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
- **Positivity** 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, warehouse & distribution, biotech, call centers, back office operations, headquarters, tourism, engineering, physical, biological and computer sciences.
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 IRS or applicable state agencies 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.

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 are specially trained to help you maximize your credits
- Free initial assessment to estimate the potential federal & 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

How ADP® Can Help

ADP provides an experienced and practical approach for guiding our engineering services clients through the R&D tax credit process. Our group of specialized professionals go above and beyond to provide the peace of mind that comes with having a highly detailed study outlining qualified research activities and expenses. We carefully analyze each client as a candidate to claim the R&D tax credit.

About ADP SmartCompliance®

ADP SmartCompliance integrates with your HCM system to give you a comprehensive solution that’s configurable to your company’s current and future needs. You’ll have the tools to manage and understand the full breadth of your company’s HCM compliance activities. You can leverage experts who are veterans of various regulatory agencies. And you’ll have professionals with domain expertise in various compliance areas working directly on your behalf.

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