

ABOUT KBKG



Established in 1999 with offices across the US, KBKG provides turn-key tax solutions to CPAs and businesses. By focusing exclusively on value-added tax services that complement your traditional tax and accounting team, we always deliver quantifiable benefits to clients.

Our firm provides access to our knowledge base and experienced industry leaders. We help determine which tax programs benefit clients and stay committed to handling each relationship with care and diligence. Our ability to work seamlessly with your team is the reason so many tax professionals and businesses across the nation trust KBKG.

SERVICES OVERVIEW



Research & Development Tax Credits

Federal credit worth approximately 10% of every qualified dollar spent on developing brand new or improving existing products, processes, software, and formulae.



Cost Segregation for Buildings and Improvements

Any building improvement over \$750,000 should be reviewed for proper classification of the individual components for tax depreciation, and retirement purposes.



45L Credits for Energy Efficient Residential Developments

Newly constructed or renovated apartments, condos, and tract home developments that meet certain criteria are eligible for a \$2,000 credit per unit.



179D Incentive for Energy Efficient Commercial Buildings

Federal deduction worth \$1.80 per square foot of energy-efficient buildings. Available to architects, engineers, design/build contractors and building owners.



IC-DISC

The Interest Charge Domestic International Sales Corporation (ICDISC) offers significant Federal income tax savings for making or distributing U.S. products for export. IC-DISC benefits are available to qualified producers or distributors that are either directly involved in exporting, or selling products to distributors or wholesalers who resell for use outside of the U.S.



Transfer Pricing Services

The cross-border transfer prices of goods, royalties, services, and loans drive how much income tax a multinational company pays by country. We assist US and international companies in establishing, documenting, and defending transfer pricing practices for the IRS and international tax authorities.



Fixed Asset Review

While a cost segregation study focuses on buildings, a comprehensive Fixed Asset Tax Review encompasses all fixed assets a company owns including real property, machinery, furniture, fixtures, and equipment.



Repair vs. Capitalization Review §263(a)

Taxpayers often capitalize major building expenditures that should be expensed as repairs and maintenance such as HVAC units, roofs, plumbing, lighting and more. Retirement loss deductions for demolished building structural components are also identified.

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INDUSTRY MATRIX FOR TAX SAVING OPPORTUNITIES



At KBKG, we are committed to identifying all possible tax saving opportunities for our clients and CPA partners. Our detailed Industry Matrix helps quickly determine which tax credits and deductions apply by industry at a glance. Our chart alone provides some insight to ensure that businesses are seeking out all potential benefits; however, KBKG's certified engineers and technical experts perform a thorough assessment during the engagement process to be sure all possible incentives are identified and considered.

INDUSTRY	R&D TAX CREDITS	REPAIR/ ASSET RETIREMENT	45L TAX CREDITS	179D TAX DEDUCTIONS	COST SEGREGATION / FIXED ASSET	IC-DISC	*TRANSFER PRICING	EMPLOYEE RETENTION TAX CREDIT
Affordable Housing		✓	✓	✓	✓			✓
Agriculture, Forestry & Fishing	✓				✓	✓	✓	✓
Architecture & Engineering	✓			✓	✓	✓		✓
Auto Dealerships		✓		✓	✓			✓
Cannabis	✓				✓			✓
Communications & Utilities	✓	✓			✓	✓		✓
Construction	✓				✓			✓
Film & Music	✓				✓	✓	✓	✓
Financial Services	✓	✓			✓		✓	✓
Government Contractors	✓			✓	✓	✓		✓
Healthcare	✓	✓		✓	✓		✓	✓
Home Builder			✓					✓
Hotels	✓	✓		✓	✓		✓	✓
Manufacturing & Distribution	✓	✓		✓	✓	✓	✓	✓
Mining	✓				✓	✓	✓	✓
Multifamily Developers		✓	✓	✓	✓			✓
Oil & Gas	✓	✓			✓		✓	✓
Pharmaceutical	✓	✓		✓	✓	✓	✓	✓
Professional Services	✓	✓			✓		✓	✓
Real Estate		✓		✓	✓			✓
Restaurants		✓			✓			✓
Retail	✓	✓		✓	✓			✓
Technology/Software	✓				✓	✓	✓	✓
Transportation	✓				✓		✓	✓
Wholesale Trade	✓	✓		✓	✓	✓	✓	✓

*May apply to any industry as long as the company has cross border subsidiaries. Industries indicated are more likely to have multinational business.

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IDENTIFYING VALUE-ADDED TAX OPPORTUNITIES



KBKG SERVICE	DESCRIPTION & HIGHLIGHTS	APPLICABLE CLIENTS & INDUSTRIES	HOW MUCH IS IT WORTH?	TAX CONSIDERATIONS
RESEARCH & DEVELOPMENT TAX CREDITS (FEDERAL & STATE)	<p>Federal and State tax credit – designed to promote innovation. Expenses incurred in the United States and that meet the qualification criteria can result in a credit.</p> <p>Qualifying expenses can include wages paid to employees, supplies used in the research process, and payments made to contractors for performing qualified research.</p>	<p>Clients developing brand new products, processes, software, or formula.</p> <p>Clients materially improving existing products, processes, software or formula.</p> <p>Clients that employ those with technical backgrounds including:</p> <ul style="list-style-type: none"> • Manufacturing • Software Development • Architecture • High Tech • Food & Beverage • Equipment or tools • Life Sciences • Agriculture 	<p>Federal Benefit - Roughly 10% of their total Qualified R&D Expenses</p> <p>Ex.: Client has \$1M/year of wages related to R&D. Benefit = \$100k in gross credits per year.</p> <p>Many states also allow an R&D credit. For example, CA R&D Credit is worth an additional 7.5% of Qualified R&D expenses.</p>	<ul style="list-style-type: none"> • Dollar-for-dollar reduction in income tax liabilities. • 1-year carryback / 20-year carryforward of unused credits. • Qualified small businesses can reduce alternative minimum tax liabilities. • Qualified start-up companies can offset up to \$250,000 in payroll taxes.
COST SEGREGATION (FEDERAL & STATE)	<p>Allows taxpayers who have constructed, purchased, expanded, or remodeled any kind of real estate to accelerate depreciation deductions by reclassifying building components into shorter tax lives.</p>	<p>Any building with over \$750k of depreciable tax basis (excluding land).</p> <p>Any leasehold improvement with over \$500k of depreciable tax basis (excluding land).</p> <p>Any smaller residential rental property with over \$150k of depreciable tax basis (excluding land) can utilize KBKG's online software to generate a cost segregation report.</p>	<p>Net Present Value is roughly 5% of the total building cost.</p> <p>Ex.: \$2M office can yield an after-tax NPV of \$100k.</p>	<ul style="list-style-type: none"> • Reduces AMT • Starting in 2018, unused deductions carryforward. • Must recapture personal property and bonus eligible assets upon the sale of a building.
TRANSFER PRICING (INTERNATIONAL)	<p>Federal credit for developers of apartments, condos, or spec homes that meet The transfer prices of goods, royalties, services, and loans drive how much income tax is paid by country. Corrections to transfer pricing may lead to significant improvements in a company's global effective tax rate.</p> <p>Savings dependent on differences in tax rates between countries and can be significant.</p> <p>Tax reform provides incentives for companies to generate income in the US with lower rates certain energy efficiency standards.</p> <p>Units must be certified by a qualified professional to be eligible.</p>	<p>All US and foreign-owned multinational companies.</p> <p>Transfer pricing rules apply to goods, services, royalties, loans and other cross-border transactions in all industries</p> <p>Companies with supply chain restructuring programs, new R&D facilities, or international subsidiaries are often best placed to realize benefits.</p>	<p>US tax reform has created opportunities to improve global effective tax rates through changes to transfer prices, e.g.</p> <ul style="list-style-type: none"> • Foreign Derived Intangible Income ("FDII") allows C-Corporations to pay a 13.125% rate on some export income • Changes to transfer prices of imported goods may also lead to tax savings at the 21% rate. • Substantial benefits when correcting transfer pricing to utilize tax net operating losses. 	<p>Companies without transfer pricing documentation can face additional tax, interest, non-deductible penalties and double tax for all open tax years.</p> <p>Tax authorities are concerned about multinational companies paying their "fair share" of income tax in each country where they operate.</p>

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IDENTIFYING VALUE-ADDED TAX OPPORTUNITIES



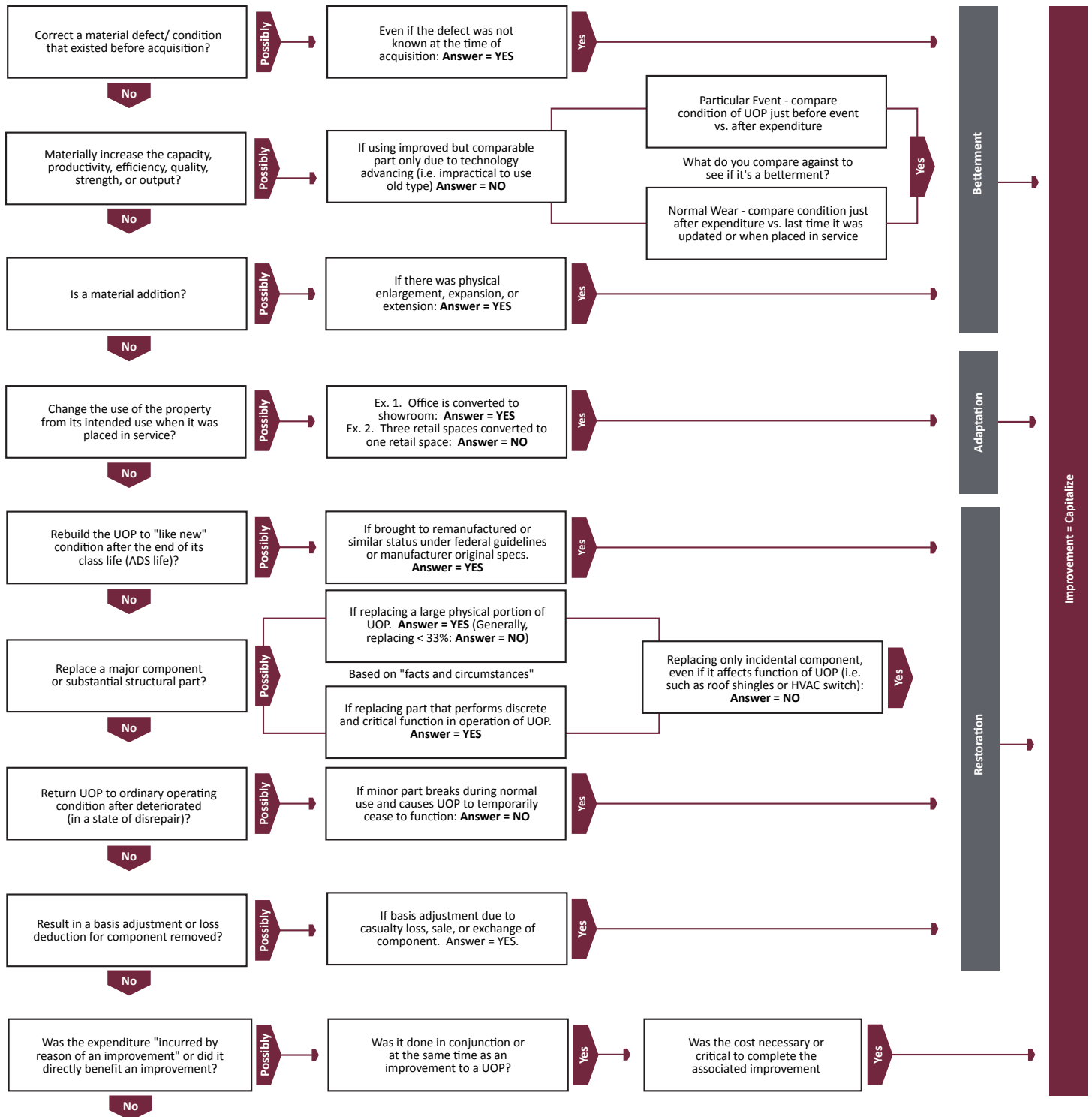
KBKG SERVICE	DESCRIPTION & HIGHLIGHTS	APPLICABLE CLIENTS & INDUSTRIES	HOW MUCH IS IT WORTH?	TAX CONSIDERATIONS
RESIDENTIAL ENERGY CREDITS / SECTION 45L (FEDERAL / STATES CAN HAVE SIMILAR PROGRAMS)	Federal credit for developers of apartments, condos, or spec homes that meet certain energy efficiency standards. Units must be certified by a qualified professional to be eligible.	Anyone that has built apartments, condos or production home developments (3 stories or less), in the last 4 years. Generally, more than 20 units.	Federal credit = \$2,000 per apartment/home unit. Many states have similar credits. Ex.: 100-unit apartment/condo can get \$200,000 of Federal Tax Credits.	<ul style="list-style-type: none"> • Credit is realized when unit is first leased or sold, not placed in service. • 1-year carryback • 20-year carryforward. • Does not reduce AMT. • Subject to passive activity loss rules • Credit reduces basis.
COMMERCIAL ENERGY DEDUCTIONS / SECTION 179D (FEDERAL/ STATES CAN HAVE SIMILAR PROGRAMS)	Federal deduction for architects, engineers, and design/build contractors that work on public or government buildings such as schools, libraries, courthouses, military housing etc. Also available to any commercial building owner.	<ul style="list-style-type: none"> • 179D for designers: Architects, general contractors, engineers, electrical & HVAC subcontractors. • Any building owner or lessee: That has constructed a commercial improvement greater than 50,000 SF since 1/1/2006. 	\$.30 up to \$1.80 per square foot in federal tax deductions. Ex.: 100,000SF building is eligible for \$180,000 in deductions.	<ul style="list-style-type: none"> • Reduces AMT • Deduction reduces basis in real property. • Designers must amend open tax years to claim. • Owners can go back to 2006 with Form 3115 to claim missed deductions.
FIXED ASSET TAX REVIEW (FEDERAL)	Comprehensive review of a company's entire fixed asset listing and supporting documents to assign appropriate tax lives, identify retirements, and correct items that should be expensed. Includes cost segregation and repair analysis.	Operations with > \$40M in real property or > 500 lines of fixed assets. <ul style="list-style-type: none"> • Retail, restaurant, bank and hotel chains of 10 or more • Manufacturing • Utility companies 	Net present value (NPV) of 5-8% of total building-related costs. Ex.: Manufacturing client has \$60M of 39-year fixed assets. NPV Cash value = \$3M - \$4.8M	<ul style="list-style-type: none"> • Reduces AMT • Starting in 2018, unused deductions carryforward. • Must recapture personal property and bonus eligible assets upon the sale of a building.
REPAIR V. CAPITALIZATION REVIEW "ASSET RETIREMENT STUDY" (FEDERAL)	New rules allow you to assign value to "structural" components removed from a building and write off the remaining basis. Regs also clarify repair expense treatment of many types of building costs such as HVAC or roof replacements. KBKG also provides compliance consulting for repair and disposition regulations.	Any building renovation costs > \$400k Retirement Study - Building is renovated AFTER owning it at least 1 year. Building should have <u>> \$500K of remaining depreciable basis left.</u> Repair Study - renovations that include roof, HVAC, windows, lighting, plumbing, ceilings, drywall, flooring, etc.	Additional Year 1 deductions of 15%-40% of renovation costs (on top of benefits from 1245 reclassification) Ex.: Client spends \$3M on structural renovations. Additional Year 1 deductions of \$450K-\$1.2M.	<ul style="list-style-type: none"> • Depending on project specifics, may require a separate 3115 if doing concurrently with a depreciation change.
IC-DISC FEDERAL INCOME TAX INCENTIVE (FEDERAL)	The IC-DISC provides significant and permanent tax savings for producers and distributors of U.S.-made products and certain services used abroad.	Any closely held, privately owned business with over \$250,000 in profits from exports <ul style="list-style-type: none"> • Manufacturers • Distributors • Architects & Engineers • Agriculture and Food Producers • Software Developers • Other Producers 	Minimum permanent 17% decrease in tax rate on half of export profits. Benefits can be dramatically higher by performing a transaction-by-transaction analysis.	<ul style="list-style-type: none"> • Requires annual filing 1120 IC-DISC. • No changes to business operations. • Benefits begin when entity is formed.

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KBKG REPAIR VS. CAPITALIZATION: IMPROVEMENT DECISION TREE - FINAL REGULATIONS

Considering the appropriate Unit of Property (UOP), does the expenditure:

(Last Updated 3-20-2015)



Possible Repair Expense

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KBKG BUILDING UNIT OF PROPERTY & MAJOR COMPONENTS CHART



This chart was created to help users identify building systems & typical "major components" in real estate assets. Replacing a major component is a capital expenditure while replacing an incidental component can be expensed

BUILDING STRUCTURE	LAND IMPROVEMENTS	HVAC SYSTEM	ELECTRICAL SYSTEM	PLUMBING SYSTEMS
<ul style="list-style-type: none"> • Roof system (membrane, insulation and structural supports) • Foundation • Other structural load-bearing elements, including stairs • Exterior wall system • Ceilings • Floors • Doors • Windows • Partitions • Loading docks 	<ul style="list-style-type: none"> • Landscaping (shrubs, trees, ground cover, lawn, irrigation) • Storm drainage (inlets, catch basins, piping, lift stations) • Site lighting (pole lights, bollard lights, up lights, wiring) • Hardscape (retaining walls, pools, water features) • Site structures (gazebos, carports, monument signs) • Paving (roads, driveway, parking areas, sidewalks, curbing) 	<ul style="list-style-type: none"> • Heating system (boilers, furnaces, radiators) • Cooling system (compressors, chillers, cooling towers) • Rooftop packaged units • Air distribution (ducts, fans, etc.) • Piping (heated, chilled, condensate water) 	<ul style="list-style-type: none"> • Service and distribution (panel boards, transformers, switchgear, metering) • Lighting (interior and exterior building mounted) • Site electrical utilities • Branch wiring (outlets, conduit, wire, devices etc.) • Emergency power systems 	<ul style="list-style-type: none"> • Plumbing fixtures (sinks, toilets, tubs etc.) • Wastewater systems (drains, waste and vent piping) • Domestic water (supply piping and fittings) • Water heaters • Site piping utilities
FIRE PROTECTION SYSTEM	SECURITY SYSTEM	GAS DISTRIBUTION SYSTEM	ESCALATORS	ELEVATORS
<ul style="list-style-type: none"> • Sprinkler systems (piping, heads, pumps) • Fire alarms (detection and warning devices, controls) • Exit lighting and signage • Fire escapes • Extinguishers and hoses 	<ul style="list-style-type: none"> • Building security alarms (detectors, sirens, wiring) • Building access and control systems 	<ul style="list-style-type: none"> • Gas piping including to/from property line and other buildings 	<ul style="list-style-type: none"> • Stairs and handrails • Drive systems (motors, truss, tracks) 	<ul style="list-style-type: none"> • Elevator cars • Drive systems (motors, lifts, controls) • Suspension systems (counterweights, framing, guide rails)

* Building unit of property (UOP) rules apply to each building structure located on a single property.

** Building system components with a different tax life are separate units of property. For example, a cost segregation study separating HVAC into 5-year & 39-year categories for a restaurant creates two separate HVAC units of property.

Lessee of Building: Must apply the same units of property above but only to the portion of the building being leased.

Personal Property: UOP are parts that are "functionally interdependent" (i.e. placing one part in service is dependent on placing the other part in service).

Plant Property: UOP is each component that performs a discrete and critical function. Generally, each piece of machinery or equipment purchased separately.

Network Assets: UOP is determined by taxpayer's particular facts

Definitions

Plant Property: Machinery and equipment used to perform an industrial process such as manufacturing, generation, warehousing, distribution, automated materials handling, or other similar activities.

Network Assets: Railroad track, oil and gas pipelines, water and sewage pipelines, power transmission and distribution lines, telephone and cable lines; -- owned or leased by taxpayers in each of those respective industries.

Major Component: Part or combination of parts that performs a discrete and critical function in the operation of the unit of property.

Incidental Component: Relatively small, inexpensive, or minor part that performs a discrete and critical function for the UOP. Generally, not capitalized because of its size, cost, or significance.

KBKG is a specialty tax firm that works directly with CPAs and businesses to provide value-add solutions to our clients. Our engineers and tax experts have performed thousands of tax projects resulting in hundreds of millions of dollars in benefits. Our services include Research & Development Tax Credits, Cost Segregation, Repair vs. Capitalization 263(a) Review, IC-DISC, Green / Energy Tax Incentives (179D for Designers, 45L for Multifamily), and Fixed Asset Depreciation Review.

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BIG R&D TAX CREDIT OPPORTUNITIES UNDER THE LATEST TAX LAW, WHAT YOU NEED TO KNOW





Jonathan Tucker

- Principal at KBKG
- 21 years of experience providing federal business tax advisory services
- Instructor and author for numerous educational groups
- Involved with consulting, technical review, training, project management, and representation before the IRS.





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SEAMLESS TEAMWORK & COLLABORATION

Our ability to work seamlessly with your team is the reason so many tax professionals and businesses across the nation trust KBKG.

Our practice is staffed by full-time specialists with engineering, valuation, "green" building, estimating, and construction backgrounds as well as tax professionals, attorneys, engineers, and economists.

SERVICES

- R&D Tax Credits
- Cost Segregation for Buildings and Improvements
- Green Building Tax Incentives
- Transfer Pricing Services
- IC-DISC
- Fixed Asset Review
- Repair vs. Capitalization Review
- Employment Tax Credits

NATIONWIDE SOLUTIONS

KBKG has offices strategically placed nationwide to better serve our clients.

Our representatives, located all over the country, are experienced in the local markets and regions they support.



WEST

Pasadena
Woodland Hills
West Los Angeles



SOUTHEAST

Atlanta



SOUTH

Dallas – Fort Worth



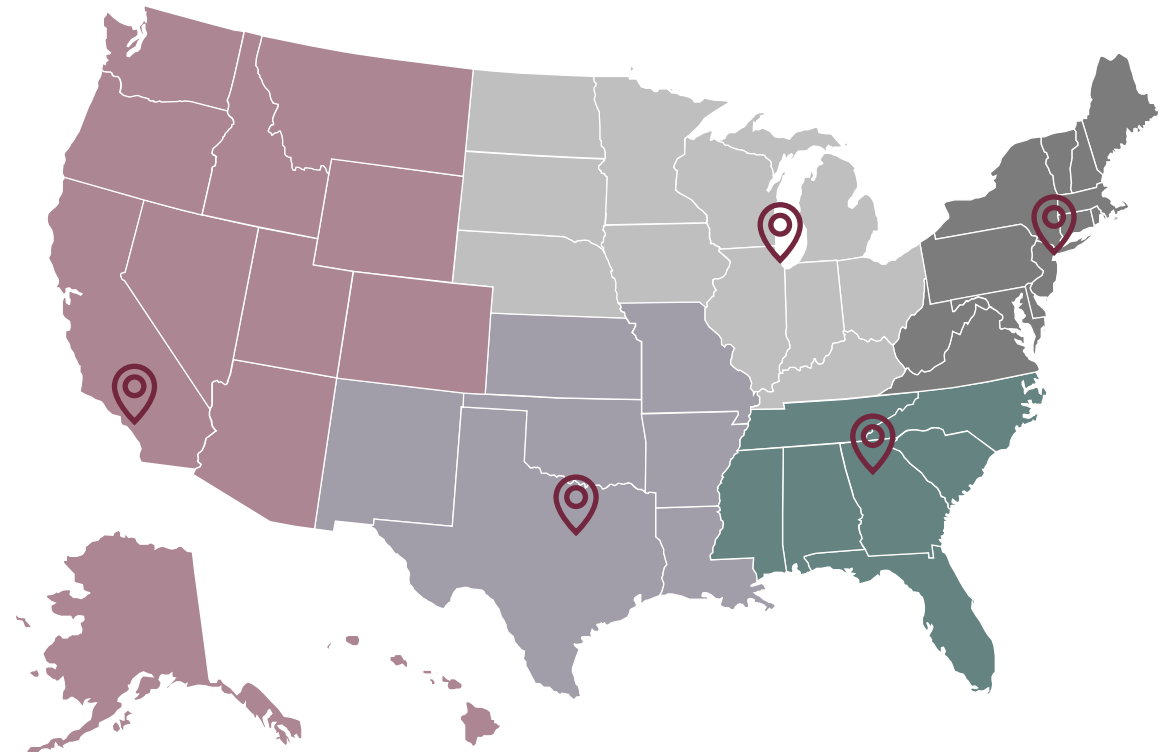
MIDWEST

Chicago



NORTHEAST

New York City
Philadelphia





Agenda

- Overview of the R&D tax credit and its history
- Impact of the latest tax law and administrative changes
- Calculating credits
- Documentation and common pitfalls and red flags to avoid when filing claims



Overview of the R&D tax credit and its history



BENEFITS OF THE R&D TAX CREDIT

- First enacted in 1981
- Federal benefit typically ranges from 7% to 10% of the qualifying research expenditures
- Dollar-for-Dollar reduction in tax liability
- Increases the Return on Investment
- Lowers the effective tax rate
- Improves earnings per share
- Retroactive Claims (all open years or more if net operating losses)
- General Rule: 1 Year Carryback; 20 Year Carryforward
- S Corps & Partnerships – R&D tax credit flows through to the owners
- Many states offer an R&D tax credit

RESEARCH & DEVELOPMENT TAX CREDIT

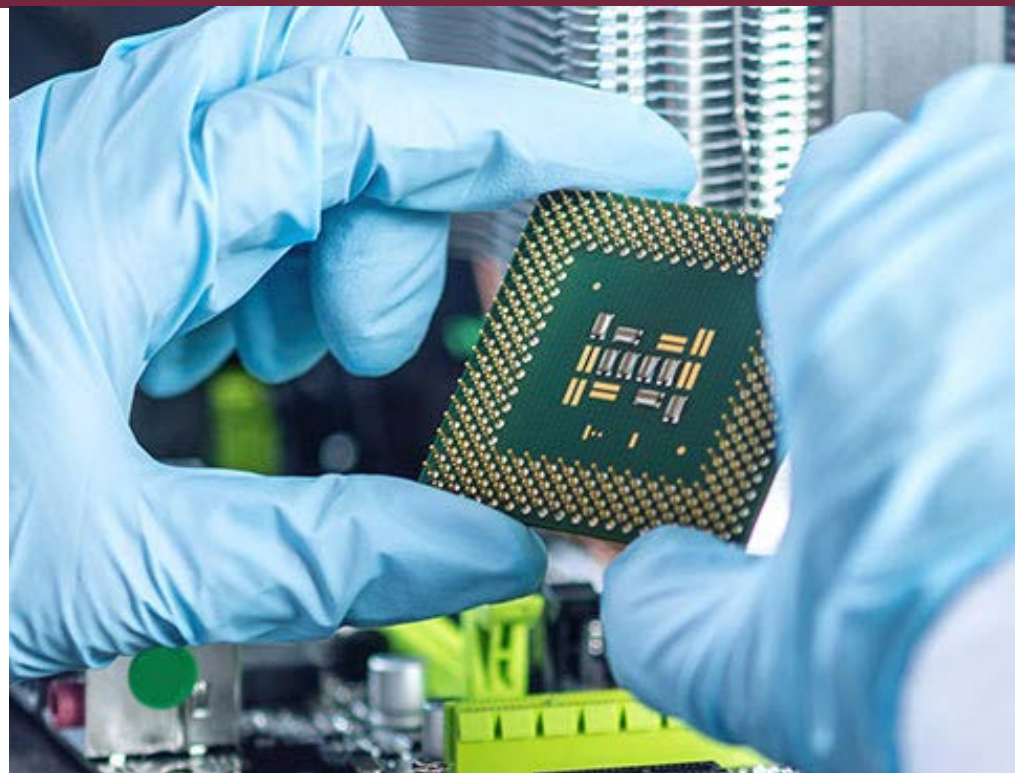
i What is the R&D Tax Credit?
Federal tax incentive (and certain state) designed to promote innovation in the United States. The credit is a dollar-for-dollar reduction in tax liability for a given year.

- ⚛ Qualified Research Activities - The 4 Part Test**
- Technological in nature – based in the hard sciences
 - Permitted Purpose - New or Improved Business Component
 - Product, Process, Formula, Invention, Technique, Software
 - Elimination of Uncertainty
 - Process of Experimentation

- 💰 Qualified Research Expenses**
- (1) W-2 Box 1 Wages – In-House R&D labor; (2) Partnership Earnings subject to SE tax; & (3) Schedule C
 - Supplies – materials used when creating new or improved products
 - 1099 Contractor / Third-Party Service Costs – Outsourced R&D labor at 65% typically

- 👥 Applicable Industries and Clients (all industries can qualify)**
- | | | |
|-----------------|------------------------|-----------------------|
| • Manufacturing | • Software Development | • Foundries |
| • Architecture | • Food Science | • Automobile |
| • Machining | • Equipment or Tool | • Chemical & Formula |
| • Engineering | • Life Sciences | • Aerospace & Defense |

Clients developing or materially improving existing products, processes, software or formula. Clients that employ those with technical backgrounds (software development, engineering, etc.)



HOW MUCH IS THE CREDIT WORTH?

Fed & CA Benefit: Roughly 20% of their total Qualified R&D Expenses

Example: Client has \$1M/year of Qualified Research Expenses.

Benefit = \$200k in gross credits per year.

FEDERAL R&D CREDITS BY INDUSTRY - ESTIMATED 2023 ALLOCATION

Industry	Credit Amount Estimated 2023	Percentage
Manufacturing	\$ 15.2 billion	61%
Information	\$ 4 billion	16%
Professional, scientific, technical services	\$ 2.5 billion	10%
Wholesale and retail trade	\$ 1.8 billion	7%
Finance and insurance	\$ 500 million	2%
Holding Companies	\$ 249 million	1%
Mining	\$ 249 million	1%
Utilities	\$ 127 million	<1%
Other	\$ 375 million	1.5%
Total	\$ 25 billion	

PATH ACT (2015): EXPANSION OF THE R&D CREDIT

The PATH Act made **THREE** major changes to the R&D Tax Credit

- First Change:
R&D Tax Credit has been permanently extended
- Second Change:
R&D Credit can offset a portion of payroll tax
- Third Change: R&D Tax Credit can offset
Alternative Minimum Tax (AMT)



INFLATION REDUCTION ACT (2022): EXPANSION OF THE R&D CREDIT

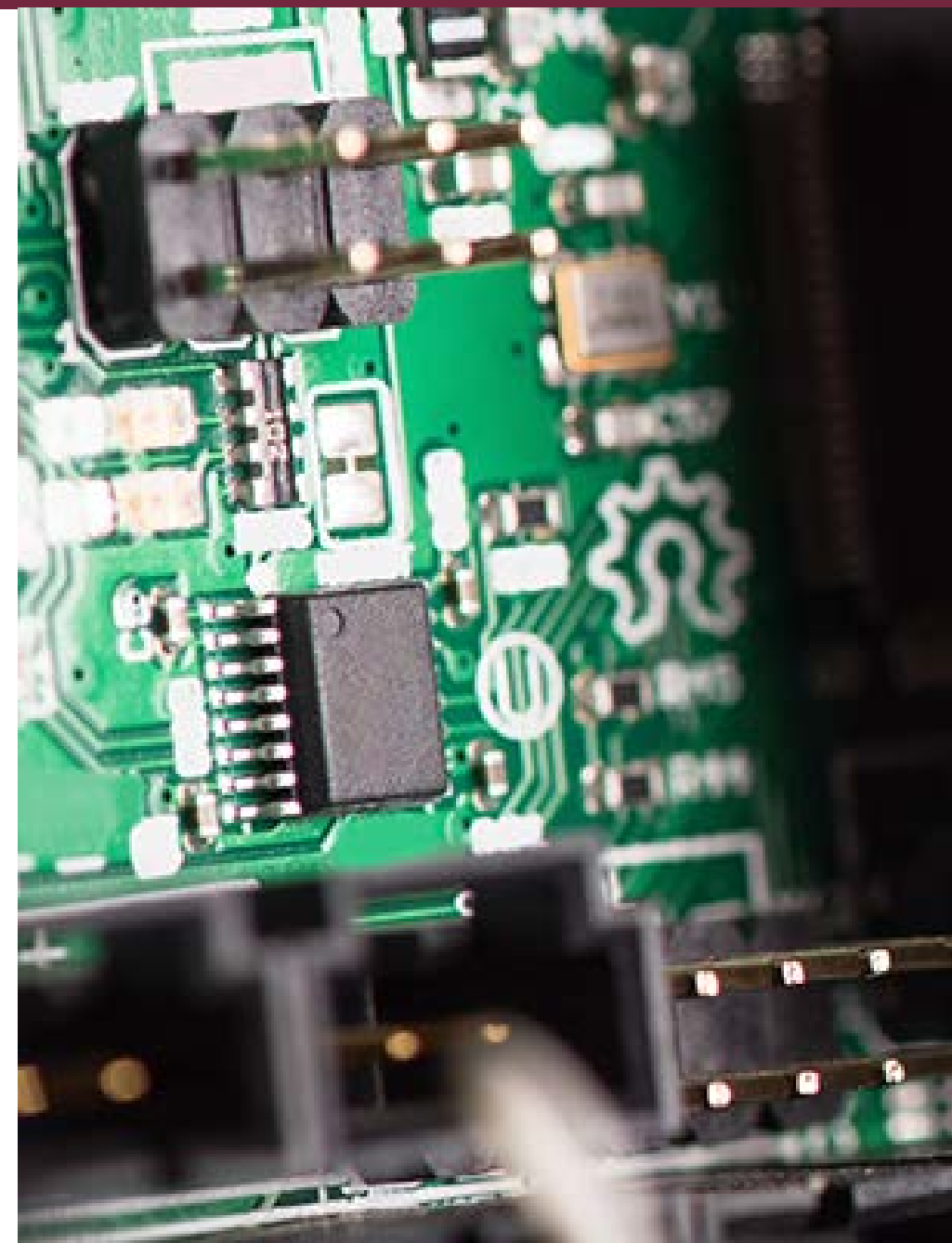
The Inflation Reduction Act expanded the payroll credit from \$250,000 to \$500,000

- **Allows qualified startup businesses to claim up to \$500,000 of the R&D tax credit against their payroll taxes**
- \$250,000 applied against Social Security Taxes and \$250,000 applied against Medicare Taxes
- A qualified startup is defined as a company with less than \$5 million in gross receipts and no gross receipts for any tax year preceding the five-tax year period ending with the tax year
 - If first year of election is 2023, must have had no gross receipts in a tax year preceding 2019
 - 2023 must have less than \$5 million in gross receipts in credit year
 - 2018 prior must have zero gross receipts, cannot make election for more than 5 years
- Gross receipts are not required (companies with no gross receipts can make the election and use the credit).
- Any unused credit amount is carried forward indefinitely



TAX CUTS AND JOBS ACT (2017) CAPITALIZATION OF SECTION 174 EXPENSES

- For tax years beginning after 12/31/2021, Specified R&E expenditures were no longer allowed to be currently deducted.
 - Domestic R&E were to be capitalized and amortized over 5 years
 - Foreign R&E were to be capitalized and amortized over 15 years
 - Amortization begins in the midpoint of the taxable year in which expenses are paid or incurred
- Software Development
 - While previously deductible under Rev. Proc 2000-50, the new 174 rules specify that software development must be capitalized and amortized
- Treatment upon disposition, retirement, or abandonment.
 - Must continue to amortize

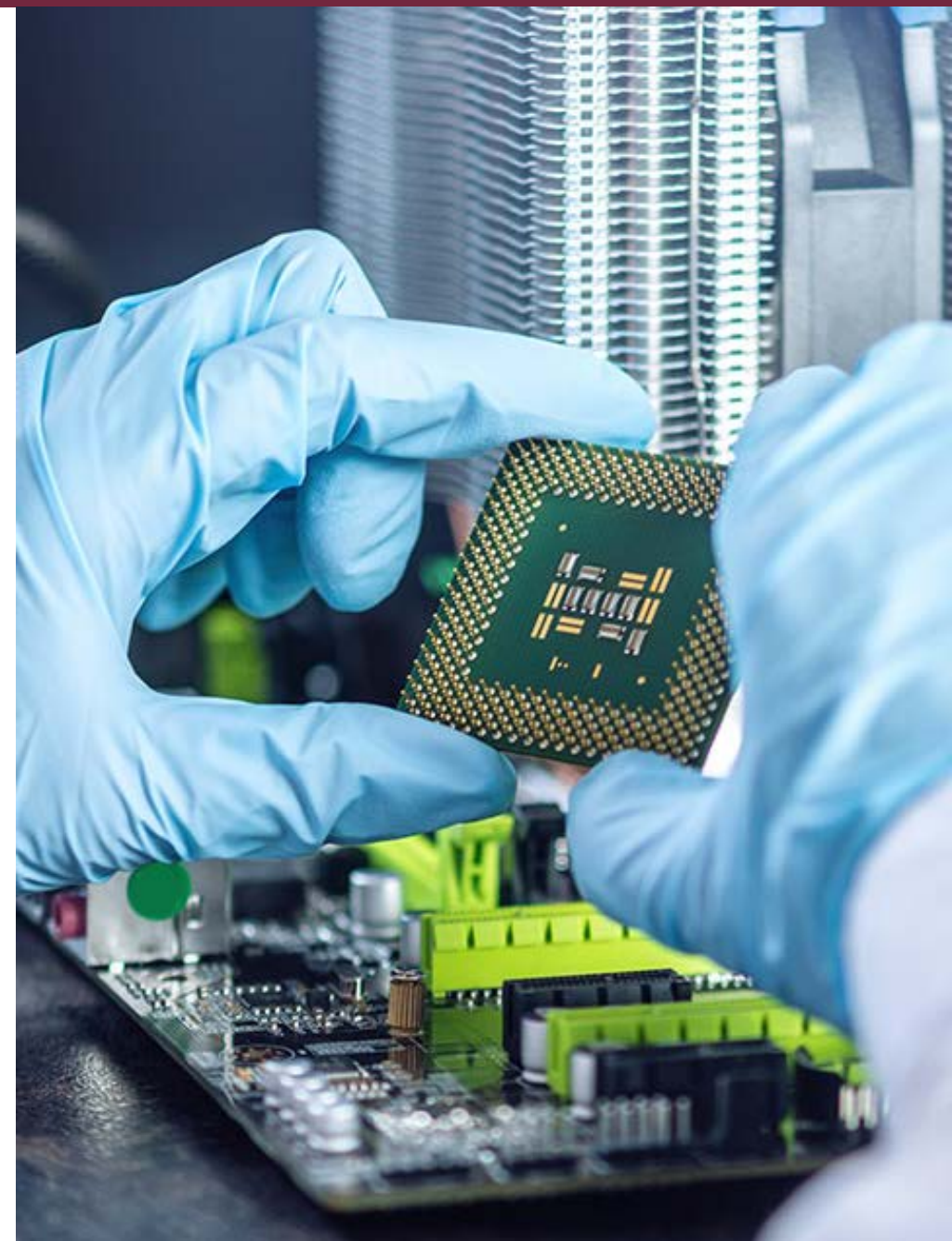




Impact of the latest tax law and administrative changes

ONE BIG BEAUTIFUL BILL ACT (OBBBA) (2025)

- Signed into law on July 4, 2025, **applies to tax years beginning after December 31, 2024**
 - Renews 100% immediate deduction of domestic R&E expenses
 - **Foreign R&E still amortized over 15 years**
- Retroactive small business election available only for the first year after OBBBA was enacted (**until July 3, 2026**)
 - Small businesses that averages less than \$31 million in gross receipts for the prior three years (2022-2024) can deduct domestic R&E expenses **retroactively** for 2022 through 2024
 - Section 280C(c) election can be made retroactively



ONE BIG BEAUTIFUL BILL ACT (OBBBA)

- All business have 3 options on how to treat their domestic R&E expenses from 2022 through 2024:
 1. Deduct the remaining unamortized domestic R&E expenses all in 2025
 2. Spread remaining unamortized domestic R&E expenses over 2025 & 2026
 3. Continue amortizing domestic R&E expenses over their remaining life
- **Options 1 and 2 above may require Form 3115 with a 481(a) adjustment or statemetn on the tax return. Additional guidance is expected.**



ONE BIG BEAUTIFUL BILL ACT (OBBBA)

- This opens massive opportunities for all businesses
 - Catch-up missed deductions
 - Claim missed R&D tax credits
 - It's like 174 capitalization never happened



VALUE OF R&D CREDIT WITH SECTION 174 IMPACT FOR NEW CLIENTS

- Example of R&D credit and Section 174 impact for clients claiming the credit for the first time in 2024:

Federal	Formula	2021	2022	2023	2024	2025	Total
Section 174 Expenses (US Total)	A	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 5,000,000
Section 174 Expenses (Foreign)	B	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Section 174 Expenses (Total)	C = A + B	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 5,000,000
Section 174 Deduction (Current Year)	D	\$ (1,000,000)	\$ (100,000)	\$ (300,000)	\$ (500,000)	\$ (1,000,000)	\$ (2,900,000)
Section 174 Amortization (Timing)	E = C + D	\$ -	\$ 900,000	\$ 700,000	\$ 500,000	\$ -	\$ 2,100,000
Section 481(a) Adjustment	F				\$ 400,000	\$ (2,100,000)	\$ (1,700,000)
Net Deductions (Current Year)	G = E + F				\$ 900,000	\$ (3,100,000)	\$ (2,200,000)
Corporate Tax Rate	H				21%	21%	
Section 174 Tax Impact	I = G x H				\$ 189,000	\$ (651,000)	\$ (462,000)
Net Value R&D Credit (If Claimed)	J	\$ (79,000)	\$ (100,000)	\$ (100,000)	\$ (100,000)	\$ (79,000)	\$ (458,000)
Timing of Tax Impact w/ R&D Credit	K = I + J				\$ (190,000)	\$ (730,000)	\$ (920,000)

RECENT GUIDANCE: CHANGES TO FORM 6765

- On September 15, 2023, the IRS released a preview of proposed changes to Form 6765 and solicited comments from interested parties.
- Primary objective is to promote compliance and improve transparency.
- Based on the feedback received, the IRS made several revisions to “reduce taxpayer burden” which were released on June 21, 2024.
- On December 12, 2024, the IRS released the final changes to Form 6765 for the 2024 tax year and forward.



RECENT GUIDANCE: CHANGES TO FORM 6765

- Form expanded from 2 pages to 4 pages
- Added 3 sections to the Form (E, F, and G)
- Section G will be optional for tax year 2024, effective for tax year 2025
- Page 1 Changes
 - Section 280C election has been moved to the top of the page
 - New check box for members of a controlled group or business under common control

Form 6765 (Rev. December 2024) Department of the Treasury Internal Revenue Service	Credit for Increasing Research Activities Attach to your tax return. Go to www.irs.gov/Form6765 for instructions and the latest information.	OMB No. 1545-0619 Attachment Sequence No. 676
Name(s) shown on return		Identifying number
A Are you electing the reduced credit under section 280C? See instructions. <input type="checkbox"/> Yes <input type="checkbox"/> No		
B Are you a member of a controlled group or business under common control? <input type="checkbox"/> Yes <input type="checkbox"/> No		
If "Yes," complete and attach the required statement. See instructions for required attachment.		
Section A—Regular Credit. Skip this section and go to Section B if you are electing or previously elected (and are not revoking) the alternative simplified credit.		
1	Certain amounts paid or incurred to energy consortia (see instructions)	1
2	Basic research payments to qualified organizations (see instructions)	2
3	Qualified organization base period amount	3
4	Subtract line 3 from line 2. If zero or less, enter -0-	4
Note: Complete Section F before going to line 5.		
5	Total qualified research expenses (QREs). Enter amount from line 48	5
6	Enter fixed-base percentage, but not more than 16% (0.16). See instructions	6
7	Enter average annual gross receipts. See instructions	7
8	Multiply line 7 by the percentage on line 6	8
9	Subtract line 8 from line 5. If zero or less, enter -0-	9
10	Multiply line 5 by 50% (0.50)	10
11	Enter the smaller of line 9 or line 10	11
12	Add lines 1, 4, and 11	12
13	If you elect to reduce the credit under section 280C, then multiply line 12 by 15.8% (0.158). If not, multiply line 12 by 20% (0.20) and see instructions for the statement that must be attached	13
Section B—Alternative Simplified Credit. Skip this section if you are completing Section A.		
14	Certain amounts paid or incurred to energy consortia (see the line 1 instructions)	14
15	Basic research payments to qualified organizations (see the line 2 instructions)	15
16	Qualified organization base period amount (see the line 3 instructions)	16
17	Subtract line 16 from line 15. If zero or less, enter -0-	17
18	Add lines 14 and 17	18
19	Multiply line 18 by 20% (0.20)	19
Note: Complete Section F before going to line 20.		
20	Total qualified research expenses (QREs). Enter amount from line 48	20
21	Enter your total QREs for the prior 3 tax years. If you had no QREs in any 1 of those years, skip lines 22 and 23	21
22	Divide line 21 by 6.0	22
23	Subtract line 22 from line 20. If zero or less, enter -0-	23
24	Multiply line 23 by 14% (0.14). If you skipped lines 22 and 23, multiply line 20 by 6% (0.06)	24
25	Add lines 19 and 24	25
26	If you elect to reduce the credit under section 280C, then multiply line 25 by 79% (0.79). If not, enter the amount from line 25 and see the line 13 instructions for the statement that must be attached	26

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 13700H Form **6765** (Rev. 12-2024)

RECENT GUIDANCE: CHANGES TO FORM 6765

- Page 2 Changes
- Section E – Other Information (NEW)
 - High level risk review analysis
 - Questions about the taxpayer's claim include:
 - Number of business components
 - Officer wages included in Wage QRE
 - Acquisitions or dispositions
 - New categories of expenses in QRE
 - QREs determined following ASC 730 Directive
- Section F – QRE Summary (NEW)
 - Check box if Section G is required
 - Reconciliation of Section G, if applicable

Section C—Current Year Credit

27	Enter the portion of the credit from Form 8932, line 2, that is attributable to wages that were also used to figure the credit on line 13 or line 26 (whichever applies)	27	
28	Subtract line 27 from line 13 or line 26 (whichever applies). If zero or less, enter -0-	28	
29	Credit for increasing research activities from partnerships, S corporations, estates, and trusts	29	
30	Add lines 28 and 29	30	
	• Estates and trusts, go to line 31.		
	• Partnerships and S corporations not electing the payroll tax credit, stop here and report this amount on Schedule K.		
	• Partnerships and S corporations electing the payroll tax credit, complete Section D and report on Schedule K the amount on this line reduced by the amount on line 36.		
	• Eligible small businesses, stop here and report the credit on Form 3800, Part III, line 4i. See instructions for the definition of eligible small business.		
	• Filers other than eligible small businesses, stop here and report the credit on Form 3800, Part III, line 1c.		
	Note: Qualified small business filers, other than partnerships and S corporations, electing the payroll tax credit must complete Form 3800 before completing Section D.		
31	Amount allocated to beneficiaries of the estate or trust (see instructions)	31	
32	Estates and trusts, subtract line 31 from line 30. For eligible small businesses, report the credit on Form 3800, Part III, line 4i. See instructions. For filers other than eligible small businesses, report the credit on Form 3800, Part III, line 1c	32	

Section D—Qualified Small Business Payroll Tax Election and Payroll Tax Credit. Skip this section if the payroll tax election does not apply. See instructions.

33a	Check this box if you are a qualified small business electing the payroll tax credit. See instructions <input type="checkbox"/>		
b	Check the box if payroll tax is reported on a different EIN <input type="checkbox"/>		
34	Enter the portion of line 28 elected as a payroll tax credit (do not enter more than \$500,000). See instructions	34	
35	General business credit carryforward from the current year. See instructions. Partnerships and S corporations, skip this line and go to line 36	35	
36	Partnerships and S corporations, enter the smaller of line 28 or line 34. All others, enter the smallest of line 28, line 34, or line 35. Enter here and on the applicable line of Form 8974, Part 1, column (e). Members of controlled groups or businesses under common control, see instructions for the statement that must be attached	36	

Section E—Other Information. See instructions.

37	Enter the number of business components generating the QREs on line 5 or line 20	37	
38	Enter the amount of officers' wages included on line 42	38	
39	Did you acquire or dispose of any major portion of a trade or business in the tax year? <input type="checkbox"/> Yes <input type="checkbox"/> No		
40	Did you include any new categories of expenses as current year QREs? <input type="checkbox"/> Yes <input type="checkbox"/> No		
41	Did you determine any of the QREs on line 5 or line 20 following the ASC 730 Directive? <input type="checkbox"/> Yes <input type="checkbox"/> No	41	
	If "Yes," enter the amount from Appendix C Line 19 (you may attach your Appendices A, B, C, and D here) This ASC 730 Directive only applies to taxpayers with assets equal to or greater than \$10,000,000 who follow U.S. GAAP to prepare their Certified Audited Financial Statements showing the amount of currently expensed Financial Statement R&D. See instructions.		

Section F—Qualified Research Expenses Summary. See instructions.

A	Are you required to complete Section G? See instructions to determine if you are required to complete Section G, and how to complete Section F if you are not required to complete Section G	<input type="checkbox"/> Yes <input type="checkbox"/> No	
42	Total wages for qualified services for all business components (do not include any wages used in figuring the work opportunity credit)	42	
43	Total costs of supplies for all business components	43	
44	Total rental or lease cost of computers for all business components	44	
45	Total applicable amount of contract research for all business components (do not include basic research payments)	45	
46	Enter the applicable amount of all basic research payments. See instructions	46	
47	Add line 45 and line 46	47	
48	Add lines 42, 43, 44, and 47, then enter line 48 on either line 5 or line 20, whichever is appropriate	48	

RECENT GUIDANCE: CHANGES TO FORM 6765

- Page 3 Changes
- Section G – Business Component Information (NEW)
 - For each business component, taxpayers will need to provide the following:
 - Business component name
 - Business component type
 - Product, process, technique, software, formula, invention
 - If software, what type is it
 - Internal use software (IUS), dual function, Non-IUS, exempt, etc. (10 options)
 - **Information sought to be discovered**

Section G—Business Component Information. Complete lines 49(a) through 49(f) for each business component you are required to report. See instructions. Attach additional sheets if necessary to capture all business components.

BC	49(a) EIN of the controlled group member conducting the research activities on this business component	49(b) Controlled group member's principal business activity code	49(c) Business component's name or unique alphanumeric identifier (see instructions)	49(d) Business component type (select one from available options)
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				

BC	49(e) Software (if applicable, select from the available options)	49(f) Describe the information sought to be discovered. Use the space provided.
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		

RECENT GUIDANCE: CHANGES TO FORM 6765

- Page 3 Changes (Continued)
- Section G – Business Component Information (NEW – Continued)
- This is a best practice example submission from the IRS website of information sought to be discovered.
- **Note:** This example pertains to guidance addressing the Chief Counsel Memorandum for amended and late filed returns. Further guidance will be provided once the updated instructions for Form 6765 are released.

Describe all the activities and information each individual sought to discover by business component.

Business component number	Job title	Qualified service category	Activities and information each individual sought to discover by business component
1	Software Developer	Qualified Research	Developed functional requirements, coding of software, and testing in facility. Integrate data from disparate systems by researching alternatives.
1	Engineering Manager	Direct Supervision	Direct supervisor of Software Developer and Project Engineer.
1	Project Engineer	Qualified Research	Hardware and peripheral development in the facility to work hand-in-hand with software tracking. Experimented with multiple RFID readers and chips. Experimented with RFID chip location on parts and readers in the plant to maximize successful reading of chip.
2	Project Engineer	Qualified Research	Designed manufacturing equipment including and tested capabilities with several different higher speed injectors.
2	Software Developer	Qualified Research	Programmed logic controllers for the conveyor and automated material handling systems.
3	Project Engineer	Qualified Research	Designed internal structure and led testing of the iterative designs.
3	Metallurgist	Qualified Research	Worked on development of material(s) to withstand extreme conditions.
4	Lab Technician	Direct Support	Compiled test data for Chemical Engineer.
4	Chemical Engineer	Qualified Research	Developed formulations to test in extreme environments.
4	Lab Manager	Direct Supervision	Direct supervisor of Lab Technician and Chemical Engineer.

RECENT GUIDANCE: CHANGES TO FORM 6765

- Page 4 Changes
- Section G – Business Component Information (NEW – Continued)
 - For each business component, taxpayers will need to provide the following:
 - QRE by cost category
 - Wage QRE
 - Direct research
 - Direct supervision
 - Direct support
 - Supply QRE
 - Computer leasing QRE
 - Contract research QRE

Form 6765 (Rev. 12-2024)

Page **4**

Section G—Business Component Information (continued). Complete lines 50 through 56 for each business component. If you have more than fifteen business components, see instructions.

BC	50 Direct research wages for qualified services	51 Direct supervision wages for qualified services	52 Direct support wages for qualified services	53 Total qualified wages (add line 50, line 51, and line 52)
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
Total from attachments				
Total				

BC	54 Cost of supplies	55 Rental or lease cost of computers	56 Applicable amount of contract research expenses (see instructions for reporting basic research payments)
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
Total from attachments			
Total			

RECENT GUIDANCE: CHANGES TO FORM 6765

- Section G will be optional for taxpayers who meet either of the following set of requirements:
 1. The taxpayer is a Qualified Small Business (QSBs, or payroll tax credit eligible taxpayers)
 2. The taxpayer has:
 - a. \$1.5M or less in QREs in the current tax year (determined at the controlled group level),
 - b. \$50M or less in gross receipts in the current tax year (determined at the controlled group level), and
 - c. Is claiming the R&D credit on an original, timely filed return
- The IRS also limited the number of business components that must be report in Section G to:
 - 80% of total QREs in descending order by business component, but
 - No more than 50 business components
 - Taxpayers using ASC 730 Directive can report those QREs on a single line item

RECENT GUIDANCE:

IRS RESEARCH CREDIT MEMO (CCM 20214101F)

On October 15, 2021 the IRS released Chief Counsel Memorandum 20214101F detailing new requirements for taxpayers submitting research credit refund claims

- Applicable to amended or late filed returns
- Effort to “effectively allocate its limited resources to determining which procedurally compliant claims to examine.”
- Grace period until January 10, 2022 before this information is required
- For claims that fail to provide the information sought by the CCM, taxpayers will receive a letter advising them that they must “perfect” the claim by providing the information within 45 days.
 - Applicable through January 10, 2026. After this date, research credit refund claims deemed to be procedurally insufficient will be rejected with no opportunity to “perfect” the claim.

RECENT GUIDANCE:

IRS RESEARCH CREDIT MEMO (CCM 20214101F)

Among other items, a Taxpayer must submit the following (at minimum), for a refund claim to be considered 'valid':

- Identify ALL the business components to which the I.R.C. § 41 research credit claim relates for that year.
- For each business component:
 - identify ALL research activities performed;
 - identify ALL individuals who performed each research activity; and
 - identify ALL the information **each individual** sought to discover.
- Total QRE claimed (Wages, Supplies, Contract Research)

Item #	Information Needed	Description
1	Identify all the business components that form the factual basis of the IRC § 41 research credit claim for the claim year.	Business components as defined in IRC § 41(d)(2)(B) must be identified.
2	All research activities performed by business component.	This must include a description of what the taxpayer did, and how they did it, by business component. It does not need to describe the four-part test under IRC § 41(d)(1) in detail. Language that simply restates the requirements under the Code or Treasury Regulations is insufficient.
3	All individuals who performed each research activity by business component.	This can be a list, table, or narrative but must include the first and last name or title/position of the person or persons engaged in the research by business component.
4	All the information each individual sought to discover by business component.	This can be a list, table, or narrative providing the information each individual sought to discover.
5	The total qualified 1) employee wage expenses, 2) supply expenses, and 3) contract research expenses.	The claim should provide the total amount of each of these expense types. If the Form 6765 or its equivalent is properly completed, that will satisfy this item.

RECENT GUIDANCE: IRS RESEARCH CREDIT MEMO (CCM)

- Effective June 18, 2024, IRS no longer requires taxpayers to provide the following two items with their research credit refund claim:
 - Item #3 – The names of the individuals who performed each research activity and
 - Item #4 – The information each individual sought to discover.
- This is a best practice example submission from the IRS website of Items #1 and #2.
- Note:** Providing a completed copy of the Form 6765 will satisfy Item #5.

1. Identify all business components to which the IRC Section 41 research credit claim for refund relates for the claim year.

Business component number	Business component name	IRC Section 41(D)(2)(B) category
1	Alpha Software Suite	Computer Software
2	Beta Manufacturing Line	Process

2. Identify all research activities performed by business component.

1. Alpha Software Suite

Taxpayer sought to improve the performance and quality of its inventory and process tracking systems. The research performed included:

- Integrate Radio Frequency Identification (RFID) part tracking with factory process tracking software and accounting software, all currently residing on different software platforms.
- Develop real-time reporting from above software systems so end users can track product through the facility. This requires database development from currently disparate systems.

2. Beta Manufacturing Line

Newly designed line to improve throughput and quality of Beta widgets.

The research performed included:

- Design new manufacturing equipment capable of higher throughput by designing and building higher speed injector process that is also capable of meeting tighter tolerances due to the mold wall design of withstanding temperatures without expanding.
- Integrate all of the new manufacturing equipment into a new production line with redesigned conveyors and automated material handling capable of increasing throughput. The challenges came in reducing jams in the line and damage of widgets.
- Develop a software handshake between new components; the new components were not originally designed to share data with one another. A piece of equipment known as a “communication doodad” was added to the system, and a section of code was developed allowing the doodad to translate and pass data from one system to the next.



Calculating the R&D Tax Credit

CURRENT METHODS & EXAMPLES

2 Credit Calculation Methods Available:

1. **Regular Credit - §41(a)(1) – “Old & Cold” Method**
Base Period (1984 – 1988) or Start-up (1994 – forward)
2. **Alternative Simplified Credit (ASC) - §41(c)(4)**
Effective for tax years ending after Dec. 31, 2006



REGULAR CREDIT METHOD

4 items needed to determine Regular Credit:

1. Qualified Research Expenses (QREs)
2. Prior 4 Years Average Annual Gross Receipts (AAGR)
3. Fixed-Base % (FB%)
 - Fixed-Base % is the ratio of aggregate QREs over aggregate gross receipts for a specific period of time
 - Maximum Fixed-Base % = 16%
4. Base Amount
 - GREATER of AAGR x FB% or 50% of current year QREs
 - Credit rate is applied to the increment of current R&D spend over the base amount

FIXED-BASE % – EXAMPLE

Fixed-Base % (assumes 84-88 Base Period applies)

Year	QREs	Gross Receipts
1984	\$ 100,000	\$ 6,000,000
1985	\$ 200,000	\$ 8,000,000
1986	\$ 250,000	\$10,000,000
1987	\$ 200,000	\$12,000,000
1988	<u>\$ 400,000</u>	<u>\$14,000,000</u>
Total	<u>\$1,150,000</u>	<u>\$50,000,000</u>

$$\text{F-B\%} = \$1,150,000 \div \$50,000,000 = 2.30\%$$



REGULAR CREDIT - EXAMPLE

1. Current Year QREs	\$ 3,000,000
2. Prior 4 Yr. Avg. Gross Receipts	\$75,000,000
3. Fixed-Base %	2.30%
(A) Tentative Base Amount (2 x 3)	\$ 1,725,000
(B) Minimum Base Amount (50% of CY QREs) (#1 x 50%)	\$ 1,500,000
4. Base Amount (Greater of (A) or (B))	\$ 1,725,000
Incremental QREs (1 – 4)	\$ 1,275,000
Credit %	20%
5. Regular Credit Amount	\$ 255,000



ALTERNATIVE SIMPLIFIED CREDIT (ASC)

IRC §41(c)(4)

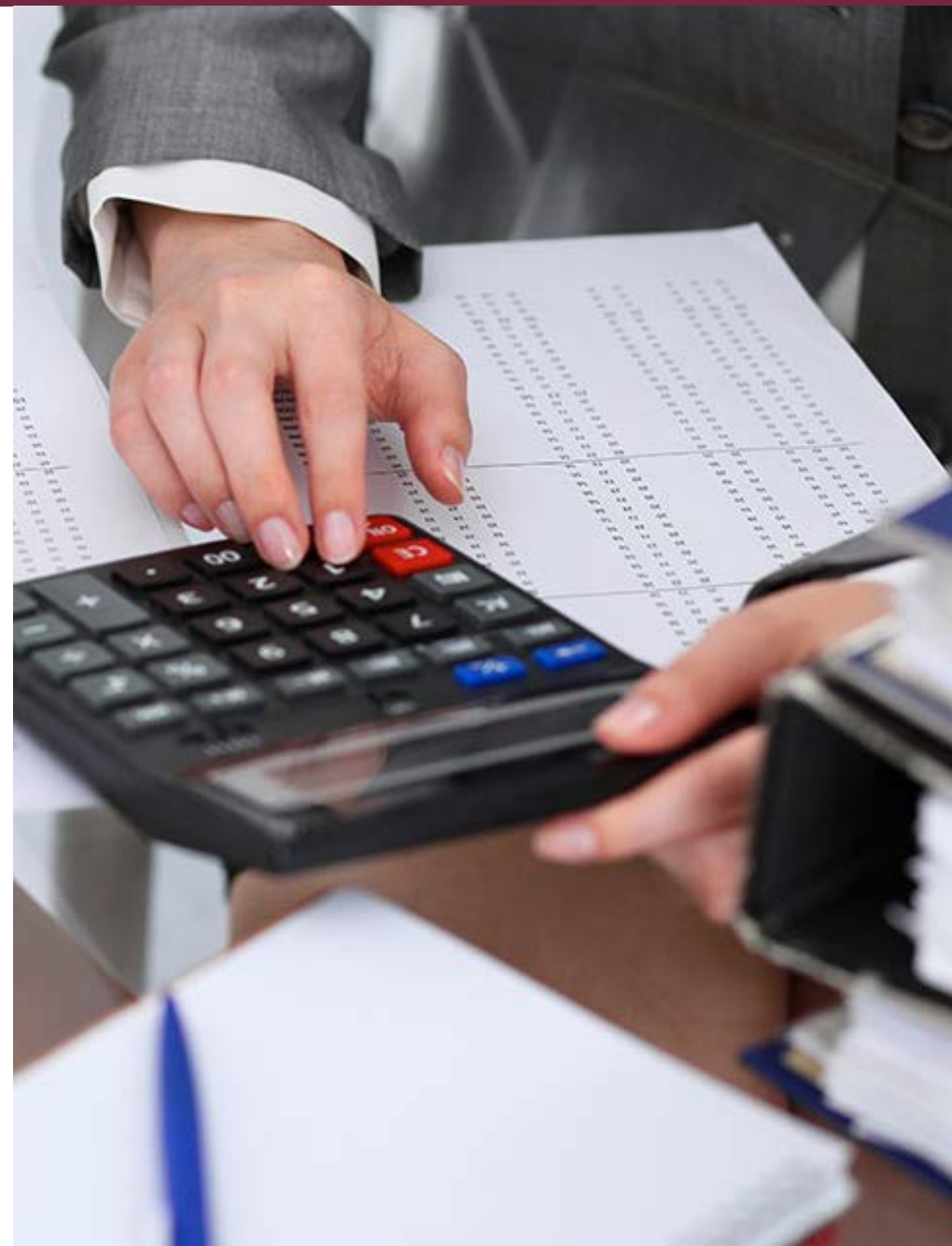
- Applicable for tax years ending after December 31, 2006

ASC Method = 14% x QREs over Base Amount

- You can now amend into the ASC
- If no QREs in any 1 of 3 prior years, ASC Method = 6% x Current Year QREs

Companies that may benefit from the ASC, include:

- Trouble establishing fixed-base percentage
- Large gross receipts
- Several subsidiaries



ASC

2 items needed to calculate the Alternative Simplified Credit (ASC):

- QREs - same as defined under the Regular Credit:
 - Wages
 - Supplies
 - Contract Research
- Base Amount = $50\% \times (\text{Average QREs for the Prior 3 Years})$



ASC – EXAMPLE

Base Amount

1st Prior Year \$2,500,000

2nd Prior Year \$2,250,000

3rd Prior Year \$2,000,000

TOTAL: \$6,750,000

÷ 3

AVERAGE: \$2,250,000

x 50%

50%: \$1,125,000

BASE AMOUNT: \$1,125,000



ASC – EXAMPLE

1. Current Year QREs = \$3,000,000

2. Less: Base Amount = (\$1,125,000)

3. Incremental QRE = \$1,875,000

4. ASC Method % = 14%

5. ASC Credit Amount = \$ **262,500**





Documentation and common
pitfalls and red flags to avoid
when filing claims

R&D ENVIRONMENT: RECENT GUIDANCE - IRS RESEARCH CAMPAIGN

The IRS launched a research issues campaign in Feb. 2020 with the objective of promoting voluntary compliance, focusing resources on the highest-risk research issues and increasing the consistency of examinations related to the Section 41 R&D credit and Section 174 research and experimental expenditures. The IRS expected to employ various methods, including form updates, issue-based examinations and additional guidance as the campaign evolved.

R&D ENVIRONMENT: RECENT GUIDANCE: CENTRALIZED RISK REVIEW TEAMS

LB&I issued a directive in March 2020 communicating the requirements and process for a centralized risk review for cases with research issues related to Section 41 and Section 174.

National Risk Review Teams have been established:

- consisting of subject matter experts, engineers, revenue agents and other specialists
- coordinate and perform comprehensive risk analyses
- intended to increase examination efficiency through the identification of high-risk returns

The theory behind the national effort is that a centralized approach will provide proper scope and depth for examinations and yield greater consistency in determinations.

R&D ENVIRONMENT: RECENT GUIDANCE: IRS DIRTY DOZEN (2021)

Improper claims of business credits

- Improper claims for the research and experimentation credit generally involve failures to participate in, or substantiate, qualified research activities and/or satisfy the requirements related to qualified research expenses. To claim a research credit, taxpayers must evaluate and appropriately document their research activities over a period of time to establish the amount of qualified research expenses paid for each qualified research activity. Taxpayers should carefully review reports or studies to ensure they accurately reflect the taxpayer's activities.

AUDIT CONSIDERATIONS AREAS OF CONTROVERSY

- Substantiation
- Nexus
- Funded Research
- Base Period
- Qualified Activities
- Business Component
- Internal Use Software
- Gross Receipts
- Trade or Business Requirement
- Depreciable Property
- Executive Compensation



INTERNAL
REVENUE
SERVICE

SUBSTANTIATION

WHATS THAT MEAN?

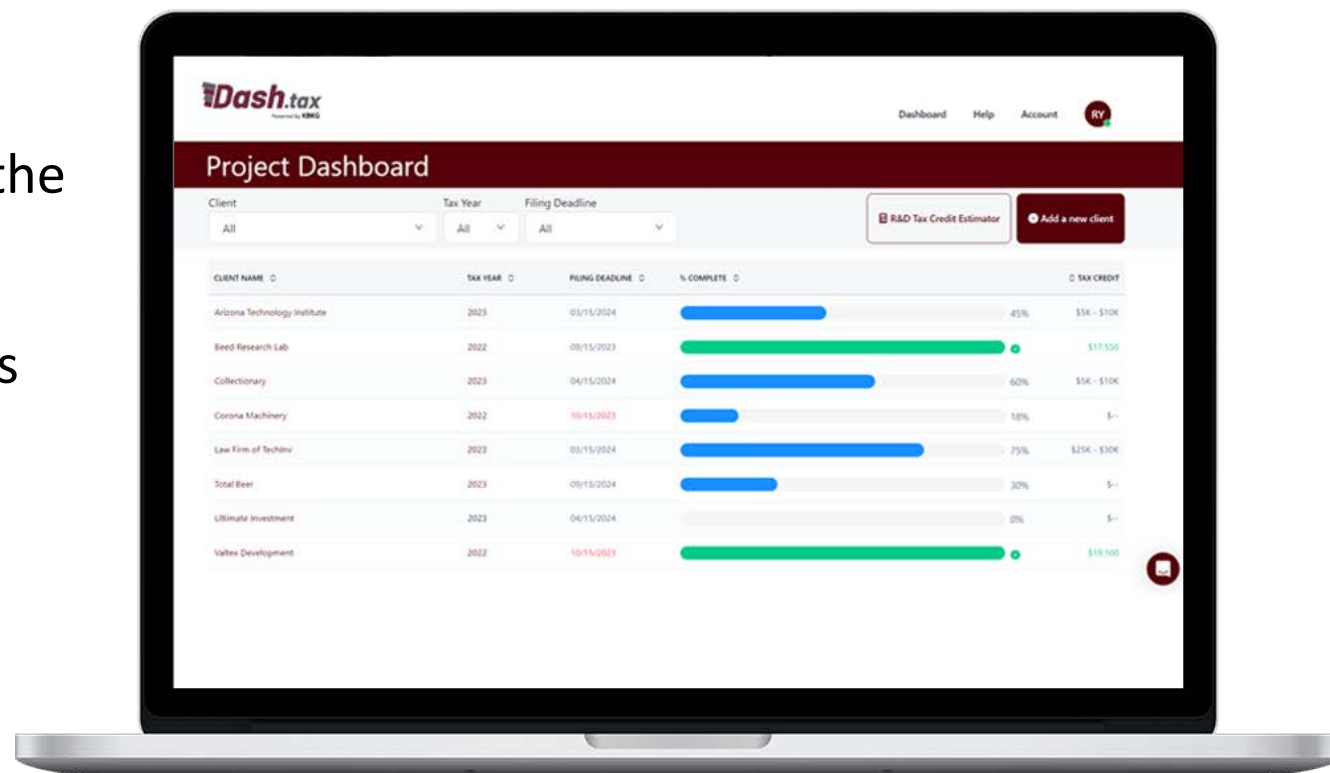
- No R&D Specific record keeping requirements
- High degree of variability in research conduct & objectives
- Taxpayers afforded flexibility related to record-keeping/documentation
- Highly subjective in nature
- Subjectivity leads to controversy

CONTEMPORANEOUS DOCUMENTATION EXAMPLES

- Concept Generation & Design
- Functional Requirements
- Project Authorization Requests
- Business Cases / Studies
- Project Schedules
- Budgets
- Design Documents & Revisions
- Architecture Documents
- PowerPoint Presentations
- Release Plans
- Testing
- Test Data / Experimental Runs
- Lab Notebooks
- Progress Reports
- Issue Logs
- Meeting minutes / Notes / Agendas
- Predictive Modeling / CAD Analysis
- Emails relating to R&D
- Record / Documenting Results
- R&D Projects List
- Product Evaluations / Reviews
- Data Sheets
- Reports to Management / Customer
- Lessons Learned
- Whitepapers
- Patents / Patent Applications
- Records of Invention
- Marketing Brochures

DASH.TAX: RESEARCH AND DEVELOPMENT TAX CREDIT SOFTWARE

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THANK YOU!



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