



Agenda

- Overview
- Examples
- Payroll Tax Offsets
- Eligible Small Business Credits
- What's new for R&D Credits?
- Questions



R&D Tax Credits – What Qualifies?

- Activities meet 4-part test:
 - **Technical uncertainty**
 - **Process of experimentation**
 - **Technological in nature**
 - **Qualified purpose**
- Additional thresholds apply to Internal Use Software



What are eligible R&D Costs?

- Eligible R&D costs include these categories:
 - Wages
 - Supplies
 - Contract research
 - Rental or lease costs of computers (CSP's)



How is the Credit Calculated?

- Two ways to calculate the credit
- Fixed Base Percentage
- Alternative Simplified Credit
- Significant federal tax savings – for every dollar deemed as qualified expense, roughly 5-10% can be captured as a net credit.
- Many state credits are available as well



Documentation

- No one-size-fits-all approach
- Quantitative documentation and nexus
- Qualitative documentation
 - May vary by industry
 - 4-part test
 - Contracts – Funded Research
- Amended Returns



R&D Indicators

- Development of new or improved products
- Development of new or improved processes
- Employees consisting of engineers, scientists, software developers or other technical employees
- Investment in customized equipment or developed new software (CAPEX items)

Qualifying Industry Groups

- Aerospace and defense
- Automotive
- Chemicals and plastics
- Construction and engineering
- Consumer products
- Entertainment and media
- Financial services
- Food processing
- Life sciences, including pharmaceuticals and medical devices
- Manufacturing
- Oil and gas
- Paper and forest products
- Retail and textiles
- Semiconductors
- Software
- Telecommunications

Manufacturing and Food Processing R&D Examples

- Recipe development and new production process related to a new organic food line.
 - Wages - product development, production time, QA testing
 - Supplies - raw ingredients, customized equipment or pilot model expenses, equipment modification costs
 - Contract research - outside consulting, engineering services, testing
- Agricultural Equipment Supplier
 - Wages - engineering for new equipment designs/modifications, fabrication of pilot models, QA testing, and direct supervision of R&D activities
 - Supplies - direct cost of significant modifications, pilot model expenses, consumed supplies, subcomponent costs
 - Contract research - outside engineering, testing costs, design of subcomponents
- Aerospace Machine Shop
 - Wages - programmers/planners, 1st article production process (machinists, QA, tooling design, etc)
 - Supplies - tracked tooling costs, 1st article expense
 - Contract Research - outside engineers, DER/DAR, testing
- New State-of-the Art Production Facility - Breweries, Manufacturing, Pilot Plants
 - Wages - project management, engineering, test run production support
 - Supplies - tangible pilot model expenses, integration costs, ingredients or raw materials
 - Contracted research - specialized equipment design, integration design, outside testing

PATH ACT

- Permanent extension of the R&D credit
- AMT offsets for eligible small businesses
- Payroll tax offsets for qualified small businesses – up to \$250,000





Payroll Tax Offsets

Payroll Tax Offsets for Qualified Small Businesses

- Up to \$250,000 available to companies that have:
 - Gross receipts for five years or less. A company isn't eligible if it generated gross receipts prior to 2012
 - Less than \$5 million in gross receipts in 2016 and for each subsequent year the credit is elected
 - Qualifying research activities and expenditures



What Years Can the Payroll Tax Offset Be Used

- Available for qualified expenses incurred in 2016
- Elected on 2016 federal income tax return
- File 2016 federal income tax returns by March 30, 2017 to apply the payroll tax offset to the second quarter.
- One time allowance for amended returns already filed for 2016 in 2017.
- Claimed on quarterly payroll returns (e.g., Form 941)¹



¹ first calendar quarter that begins after a taxpayer files their federal income tax return

What Qualifies As Having Gross Receipts for Five Years or Less?

- A company isn't eligible if it generated gross receipts prior to 2012
- A company that was in existence prior to 2012 but didn't receive gross receipts could still qualify
- Gross receipts includes any income generated, even interest



How does the \$5 Million In Gross Receipts Threshold Apply?

- Must have less than \$5 million in annual gross receipts in 2016 to be eligible
- New businesses - \$5 million limit applies after annualizing for full 12 months
- Controlled group rules apply



How is the Credit Utilized?

- Credit applies to employer’s Social Security portion of payroll taxes
- Companies pay Social Security tax of 6.2% on up to \$118,500 of each employee’s wages (up to \$7,347 per employee)
- E.g., company would need more than \$4M in payroll to absorb the full \$250k
- Claimed on quarterly payroll tax return (e.g., Form 941)
- Excess credit carried forward to next calendar quarter

How is the Credit Utilized?

	OLD RULES	NEW RULES
QREs	\$2,500,000	\$2,500,000
R&D Credit	\$162,500*	\$250,000
Income Tax Liability	\$0	\$0
Total Payroll	\$4,000,000	\$4,000,000
Payroll Taxes ²	\$248,000	\$248,000
Credit Utilized ³	\$0	\$248,000

² Assumes all employees make less than \$118,500. OASDI is 6.2% of payroll on wages of up to \$118,500 per employee.
³ Assumes the taxpayer is a qualified small business (QSB)
^{*}With 280C(i) election

Payroll Tax Offsets: Key Takeaways

- Up to \$250,000 available to start ups and small businesses for 5 years (\$1.25M Cap)
- Elected on income tax return; used on payroll tax return
- Act Soon – Amended returns can still be filed in 4th Quarter and applied in 1st Quarter 2017
- Credits should be quantified and documented properly



Eligible Small Business Credits

AMT Offsets For Eligible Small Businesses

- Eligible small business:
 - Not publicly traded
 - Less than \$50M in avg. annual gross receipts over prior 3 years
 - \$50M threshold applied at both entity and shareholder/partner levels
- Tentative minimum tax is treated as zero
 - Effect is that credit can offset both regular and AMT liability
- Applies to credits generated in 2016 forward



AMT Offsets: Example

- 2016 Eligible Small Business Credit (ESBC)- \$48,000
 - Regular Tax - \$30,000
 - TMT - \$45,000
 - AMT - \$15,000
 - Total Tax Liability - \$45,000
- Tax liability limitation is equal to the excess of \$45,000 over the greater of
 - a) \$0 (*TMT treated as zero*) or
 - b) \$1250 (*25/25 Rule: 25%* rule (Reg. Tax - \$25,000)*)
- Result - \$43,750 allowed against regular tax and AMT in current year
- Excess credit of \$4,250 carried back or forward



AMT Offsets: Example Summary

	OLD RULES	NEW RULES
Research Credit for ESB	\$48,000	\$48,000
Credit Allowed	\$0	\$43,750
Total Tax	\$45,000	\$1,250
Carried Amount	\$48,000	\$4,250
Carryback/Forward	1-yr/20-yrs	0-yrs/20-yrs

Moss Adams

Moss Adams

The material appearing in this presentation is for informational purposes only and should not be construed as advice of any kind, including, without limitation, legal, accounting, or investment advice. This information is not intended to create, and receipt does not constitute, a legal relationship, including, but not limited to, an accountant-client relationship. Although this information may have been prepared by professionals, it should not be used as a substitute for professional services. If legal, accounting, investment, or other professional advice is required, the services of a professional should be sought.

Assurance, tax, and consulting offered through Moss Adams LLP, Wealth management offered through Moss Adams Wealth Advisors LLC, investment banking offered through Moss Adams Capital LLC.

