

# Tax Tip



April 28, 2010

## Research and Development Tax Credit— A Perfect Storm

The federal research credit can be claimed for “qualified research expenditures” conducted as part of a taxpayer’s trade or business. Qualified research expenditures include ‘in house’ wages paid or the direct supervision of such research, amounts paid for supplies consumed in the research and amount paid for the use of computers for the conduct of qualified research.

The basic credit equals 20% of the research expenditures incurred during the current year over the base amount. There are certain elections available that modify the credit calculation.

Many businesses qualify for the credit but do not realize it. A review of product innovations, processes, and other improvements should be done to determine the eligibility for the research credit.

The Internal Revenue Service, however, has the research credit as a Tier 1 audit issue. IRS examinations of the credit have become increasingly difficult as agents routinely deny credits not supported by exacting documents standards. Recent case law has tilted the documentation standards in favor of the taxpayers.

The important take away include businesses that may qualify for the credit even though they may not be developing a new product. Thus, review the business operations for eligible expenditures that yield a more favorable tax credit. A Research and Development study should include contemporaneous records to withstand any IRS scrutiny.

It is anticipated that the research and development tax credit will be extended once again under the Tax Extender Act.

If you have any questions please contact our Tax Services Group:

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