

Acena Consulting, LLC

Integrity Counts, Relationships Matter

Research & Development Tax Credits

California Space Authority / Boeing
Satellite Systems
Presentation

Agenda

- Introduction
- Definition of Research & Development
- R&D Credit-Basics
- R&D Credit-Special Rules
- Documentation
- R&D Case Study
- Questions

Introduction

Acena Consulting is a multi-dimensional tax and accounting services company serving public and privately-held companies and their trusted business advisors.



Introduction

Randy Eickhoff

- More than 20 years of professional services experience including eight years with Arthur Andersen's Southern California Tax Practice
- Owner of two successful tax specialty consulting companies
- Clients ranging from \$1m in sales to more than \$10 billion spanning a large group of industries
- Member of the California Society of CPAs



How does the IRS define Research & Development?

Activities undertaken for the purpose of discovering information which is technological in nature, the application of which is intended to be useful in the development or improvement a business component (IRC Section 41(d))



R&D Credit-Basics

- Four Part Test
- Expenditures
- Time Line

R&D Credit-Basics

Four-Part Test

- Business Component Test
- Technical Uncertainty
- Process of Experimentation
- Scientific Principles

R&D Credit-Basics

Business Component Test

Development or Improvement of a

Product

Process

Technique

Formula

Software

Invention

R&D Credit-Basics

Business Component Test

An Improvement must be functional in nature

Function

Performance

Quality

Reliability

Cost Reduction

R&D Credit-Basics

Elimination of Technical Uncertainty

Uncertainty exists if the information available to the taxpayer does not establish the

Capability

Method

Appropriate Design



R&D Credit-Basics

Process of Experimentation

A process to evaluate:

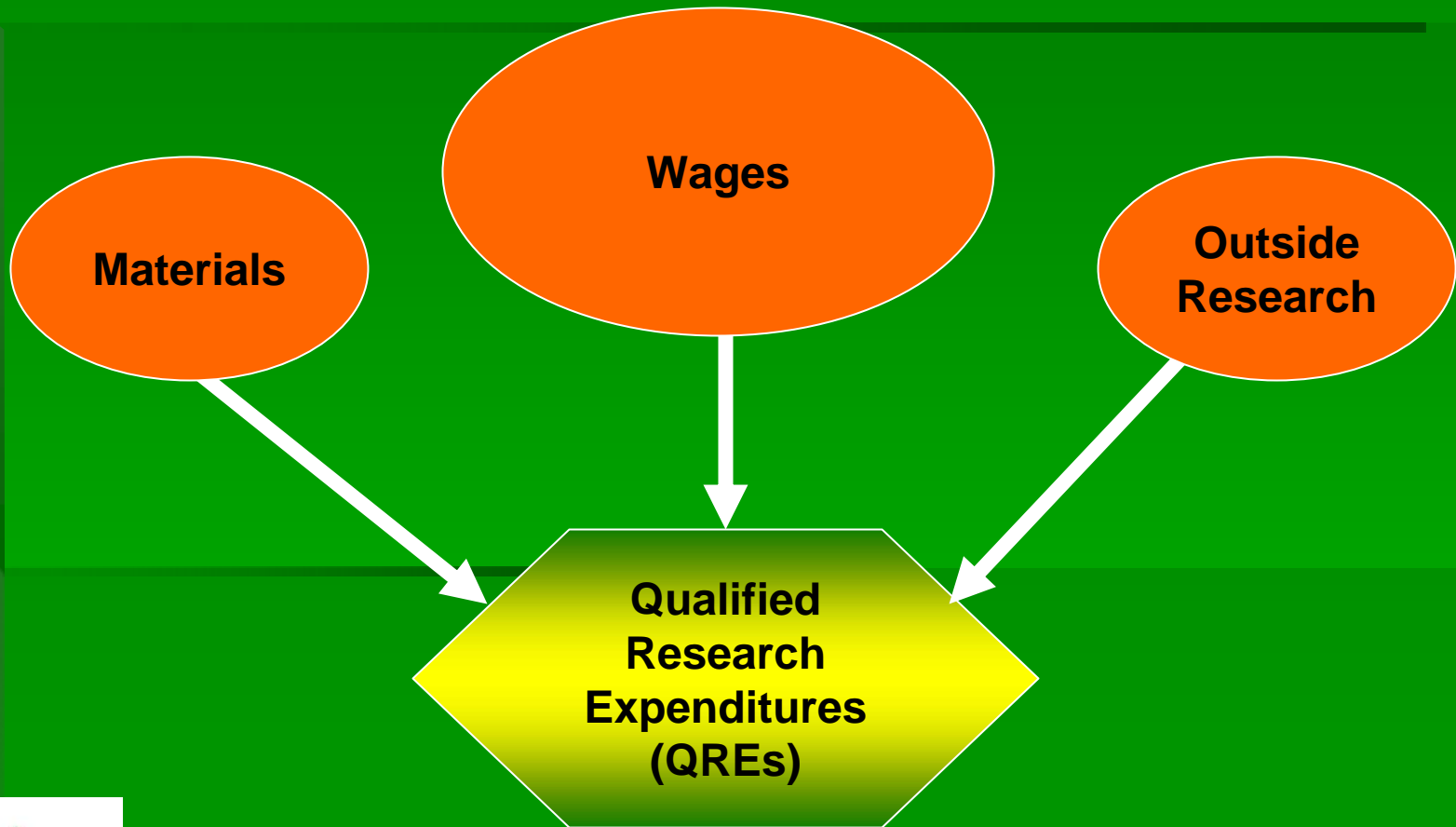
(1) More than one alternative designed to achieve a result where the capability or method of achieving a result is uncertain at the onset.

R&D Credit-Basics

Scientific Principles

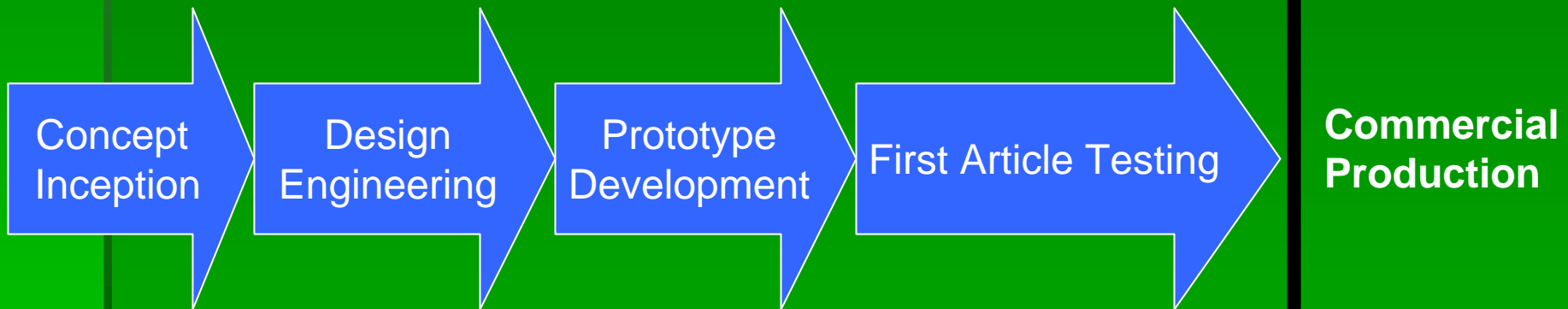
The process of experimentation must rely on the principles of biological sciences, engineering or computer science.

R&D Credit-Basics



R&D Credit-Basics

R&D Tax Credit Timeline



R&D Credit-Special Rules

Clarifying the definition of R&D

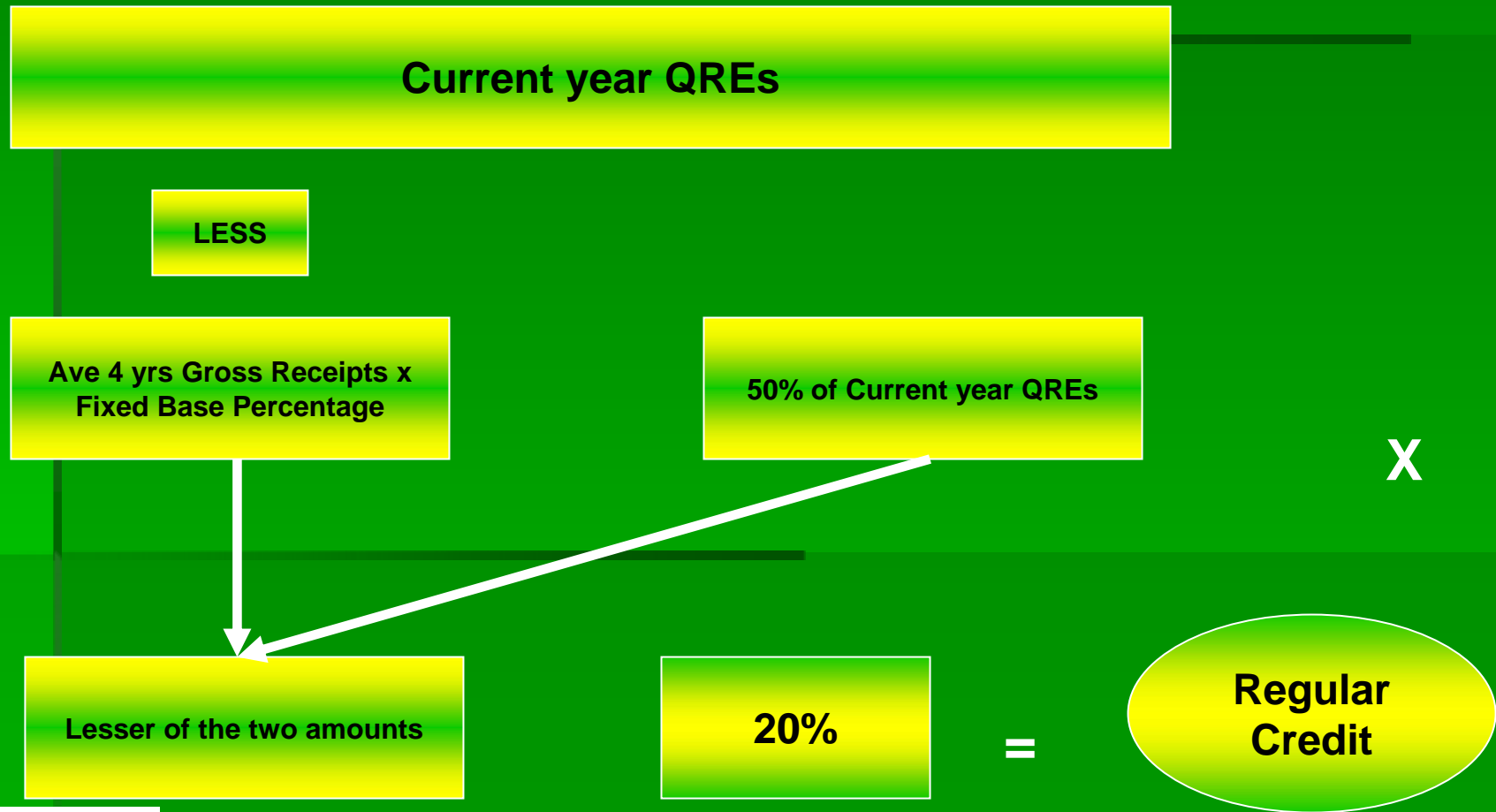
- Patent Safe Harbor
- Funded Research & substantial rights

R&D Credit-Special Rules

Funded Research (Excluded)

- Qualified research to the extent funded by contract, grant, or otherwise by another person (or government entity)
- Taxpayer must retain “substantial rights” to the research (*Lockheed Martin v. US 4/26/2000*)

Acena Consulting R&D Study Process- Regular Credit



Acena Consulting R&D Study Process- Alt Simplified Credit

Current Year QREs

minus

**50% of the average QREs
from prior 3 years**

X

14%

=

**Alternative
Simplified
Credit**

R&D Credit Case Study

\$25m Aerospace Company based in California

Space co. provides engineering, CNC turning, milling and grinding services to Tier 1 aerospace companies.

The company also provides assembly services for Kits of all sizes and is SAE AS9100 Compliant.



R&D Credit Case Study

\$25m Aerospace Company based in California

STAFFING

5 Full time Engineers

Owner oversees and is heavily involved in the engineering dept

25 machinists

5 Administrative personnel including accounting, admin,
marketing



R&D Credit Case Study

\$25m Aerospace Company based in California

SALARY INFORMATION

5 Full time Engineers- Average salary \$75,000

Owner - \$500,000

25 machinists – Average salary \$35,000

5 Administrative personnel including accounting, admin,
marketing



R&D Credit Case Study

\$25m Aerospace Company based in California

Time spent on Qualified R&D Activities

5 Full time Engineers- $80\% \times 75,000 = \$375,000$

Owner - $50\% \times \$500,000 = \$250,000$

25 machinists - $\$25\% \times \$35,000 = \$218,750$

5 Administrative – assume 0%

Total estimated labor Qualified Research Expense =
\$843,750

***80%+ of an individual's time provides 100% of cost**



R&D Credit Case Study

\$25m Aerospace Company based in California

	Regular Credit*	Alt Simplified*
Federal	\$54,800	\$38,300
California	\$63,275	\$ 0
Total	\$118,000	\$38,300

*approximate R&D credit amounts rounded for simplicity

Acena Consulting R&D Study Process

Documentation

Company Information

Qualified Research

Qualified Research Expenditures

Company R&D Process

Who?
What?
When?
Why?
How?
Results?

Wages
Supplies
Outside Research

R&D Credit Study

Questions?



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R&D Credit Study

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