

Level Up! Tax Incentives Can Take Your Business Farther

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Even though software companies are constantly modifying and enhancing their processes to develop better and more advanced products and applications, too many companies are still struggling to succeed in our slowly recovering economy.

The research and development tax credit is a frequently overlooked resource for obtaining additional funds for software development firms, and Congress implemented this incentive to encourage the type of forward thinking that occurs within the game development industry on a daily basis. It's time that game developers, and all other software developers, begin utilizing the money provided by the tax credit – in doing so, U.S. innovation will certainly continue to flourish.

Game and other developers simply need to develop new or improved software features or functionality and undertake a development process (such as agile, waterfall, prototyping, spiral, or RAD) in order to capture the benefits of the R&D tax credit.

I recently worked with a developer of premier multiplayer, online games offering new and innovative approaches, such as a subscription-free business model, instanced missions, and streaming updates, which eliminate the need for patching. The company made continual technical improvements to its existing games and also developed new software to support the other products. At the onset of the project, the company faced numerous difficulties, but through an iterative development process, the company eliminated the uncertainty inherent in the development of the existing game, as well as the new system.

As a result of its commitment to updating and improving the software, the company was able to identify over \$260,000 of federal R&D tax credits, resulting in permanent tax savings as well as increased cash flow, which allowed the company to reinvest within itself and its future research and development activities.

The R&D tax credit was introduced by Congress in the 1980s and was intended primarily for biomedical and technological research. Since that time, the definition of what qualifies as R&D has expanded significantly and now encompasses many industries, including software. While many large software companies are taking the R&D tax credit, small to medium-sized firms are assuming they don't qualify, therefore leaving money on the table.

The R&D tax credit is supported on a bipartisan basis in both houses and by the President, and experts predict it will stay in place even with tax reform. In fact, it could potentially gain further applicability and become more valuable. Moreover, in many cases your business may be eligible to file an amended return and claim the credit for the previous three years – more money in your pocket to grow your business and create new jobs.

Software companies must ensure that they are well informed on the many qualifying activities of the R&D tax credit. As firms are claiming nearly \$10 billion a year through this incentive, it is an outlet that could fund your next venture or even bring a company that is going out of business to a place where they are hiring new employees. This credit is not just for inventing something or getting a patent. It is also available to (and most typically used by) companies that are improving or modifying an existing product or improving a development process – that is, making a product cleaner, quicker, greener, cheaper, etc.

“While the big guys, with their armies of tax lawyers, are all over the R&D tax credit, too often small and medium businesses act as if there were a velvet rope barring them from taking the R&D tax credit. The R&D tax credit is available for small and medium businesses, but you do need to show up and apply to get it – the IRS isn't simply handing out credits,” Dean Zerbe, former Senior Tax Counsel to the U.S. Senate Finance Committee and alliantgroup National Managing Director, said.

One of the biggest roadblocks for businesses taking the R&D tax credit is self-censorship. The Wall Street Journal recently reported that 19 out of 20 small and medium businesses that are eligible for tax incentives, such as the R&D tax credit, fail to take advantage. Companies assume that their activities would not qualify for the R&D tax credit and do not even bother to further explore this incentive.

One such company decided it was time to take a more extensive look into the R&D tax credit and received

major tax benefits as a result. The company provides industry-leading communication solutions that allow government organizations to directly connect with their stakeholders to deliver information that affects their lives and the public interest. The company designed and developed numerous software solutions to increase communication channels to the public. To resolve the design uncertainties encountered at the outset of the projects, the company undertook an agile development process, a software development process consisting of multiple iterations, each a segment of the complete development process.

The company's development process consisted of this agile process, as well as bi-weekly meetings in which the entire development team suggested improvements to the project. During the agile process, the company undertook various iterations, each of which lasted a predetermined length of time. During each iteration, the development team undertook activities such as requirements definition, design, coding, and testing. At the end of each iteration, the company delivered a functional product and reevaluated priorities for subsequent iterations. Throughout the design and development of its projects, the company based its process of experimentation on the principles of software and computer science. This company not only benefitted from improving its products through research and development but also received over \$140,000 in state R&D tax credits for doing so.

There is no reason for your company to wait another day to explore the benefits of the R&D tax credit and ensure that you remain a level above the competition!

http://www.gamasutra.com/blogs/RobertWonish/20130726/197072/Level_Up_Tax_incentives_can_take_your_business_further.php

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