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R&D Tax Credit and Small Business— Tax Deal Changes Everything

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The tax deal just put forward by Congress not only makes the R&D Tax Credit permanent but also includes two key changes to the R&D Tax Credit which will be of enormous benefit to innovative small businesses—and especially start-ups. Business owners need to pay close attention.

First, the legislation allows small businesses to take the R&D Tax Credit against their AMT (the AMT turnoff) and; second, the bill allows small businesses (for five years) to take the R&D Tax Credit against their payroll taxes (essentially making it refundable).

Why are these changes so big?

AMT Turnoff: In our work at alliantgroup, we partner with thousands of CPA firms across the country. We constantly see small businesses doing work that qualifies for the R&D Tax Credit but because of the AMT limitation in place, the small businesses are effectively barred from utilizing the credit.

The AMT turnoff was put in place in 2010 for one year by Congress (thank you, Senator Grassley R-IA!) and for that one year, puppies and kittens fell into each others' arms. The upside was massive for small businesses to finally benefit from the significant tax savings provided by the R&D Tax Credit. Chairman of the Ways and Means Committee Brady (R-TX) has been a loud supporter of the AMT turnoff in the House, and also credit to Senators Roberts (R-KS) and Schumer (D-NY) as well as Grassley for getting this commonsense change in the law back in place. The AMT turnoff (good for businesses with less than \$50 million in gross receipts) opens the door for thousands of small businesses to finally take advantage of the R&D Tax Credit.

Start-Up: One of the oddities of the R&D Tax Credit is that often our nation's most innovative, cutting-edge companies cannot benefit from the R&D Tax Credit because they are just opening their doors, don't have income and aren't paying federal income taxes (even though they are paying payroll taxes).

The Start-Up Act, championed by Senator Coons (D-DE)—with a good assist from Senators Schumer and Roberts—allows small businesses to take against payroll tax (up to \$250,000 per year) for up to five years. A small business for the Start-Up Act provision is defined, in general, as a business with gross receipts of less than \$5 million dollars a year.

Wow. I have seen first-hand the few states that have, or have had, a refundable R&D Tax Credit that such a refundable credit can immediately translate into keeping doors open, new jobs and new business. This provision will go far to bring much-needed energy to the formation of new businesses as well as job creation and should excite every entrepreneur. New businesses desperately need every dollar – this provision will be a big help.

It is critical though that business owners make certain that they don't self-censor in terms of whether their company may potentially qualify for the R&D Tax Credit with these big new changes. Keep in mind – the R&D Tax Credit covers a huge host of work in the economy—not just basic research, but also applied research—and in fields including manufacturing, software, chemistry, biology, architecture, engineering, pharmaceutical, agriculture and on and on. While there are certainly bells and whistles to qualifying for the R&D Tax Credit—Congress with these two important reforms has removed two high barriers for small businesses and start-ups.

An early Christmas for small business owners and entrepreneurs!



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