THE FEDERAL R&D CREDIT: FUNDING MADE EASY FOR SOFTWARE AND TECH DEVELOPMENT

As many of you may already know, Washington's software and technology sector took a hit last year when lawmakers chose not to renew the state's Research and Development Tax Credit, leading to more than 2,400 software and tech companies *(State Department of Revenue)* effectively losing a vital source of funding for their businesses.

Considering the state's longstanding reputation as a major hub for software and technology, the decision not to renew was a surprising one—but thankfully, Congress has already taken action that will allow the federal R&D credit to effectively pick up where the state one left off. Signed into law last December, the Protecting Americans from Tax Hikes (PATH) Act includes the following enhancements to the federal R&D Tax Credit—and considering the host of activities that make them some of the best candidates, Washington's software and tech companies would be wise to take note of these changes:

1. The federal R&D credit was made permanent, providing companies much needed certainty in their annual tax planning.

2. Hundreds of thousands of companies are eligible for the first time this year after the removal of the alternative minimum tax (AMT) bar for businesses with less than $50 million in gross receipts, a barrier that was the single greatest hurdle to eligibility for U.S. companies.

3. The new law includes an amendment—the startup provision—that has opened the door for companies with gross receipts of $5 million or less to claim the credit against their payroll taxes.

How You Can Qualify

There are four questions that business owners should ask themselves if they're curious about eligibility:

1. Does my company take on projects related to developing a new product or process or improving upon an existing one? This doesn't just apply to patented technology (think version 1.0, 2.0, 3.0, etc.).

2. Did I overcome "technological uncertainty" during the course of the project? In layman's terms, your work should solve challenges or problems that came up during development, whether they are related to concept designs or the feasibility of the project itself.

3. Are we conducting a process of experimentation? If you are following some sort of development lifecycle, be it agile, waterfall or something in between, you're on the right path.

4. Are these activities or projects technical in nature? This checkbox is an easy one for most software companies.

To better demonstrate how a software or tech company could be eligible for the credit, let's take a real-life example.

An e-commerce company received over $2.2 million in federal R&D tax credits for a host of qualifying projects.

One of these projects involved the development of a program that provided a direct, secure connection to company-supported mortgage lenders, banks and appraisal management companies, which included some of the largest in the nation. The software allowed users to search specific databases and included a secure online messaging system that stored sales communication.

The key takeaway here is that the everyday design, implementation, and testing that companies and their employees go through to develop a new product are what make software and tech firms great candidates for the R&D Tax Credit.

Contact us today to find out if your company qualifies for the federal R&D Tax Credit.

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