



# R&D Tax Credit



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# Process



The R&D Tax Credit is an incentive to entice companies to start or continue:

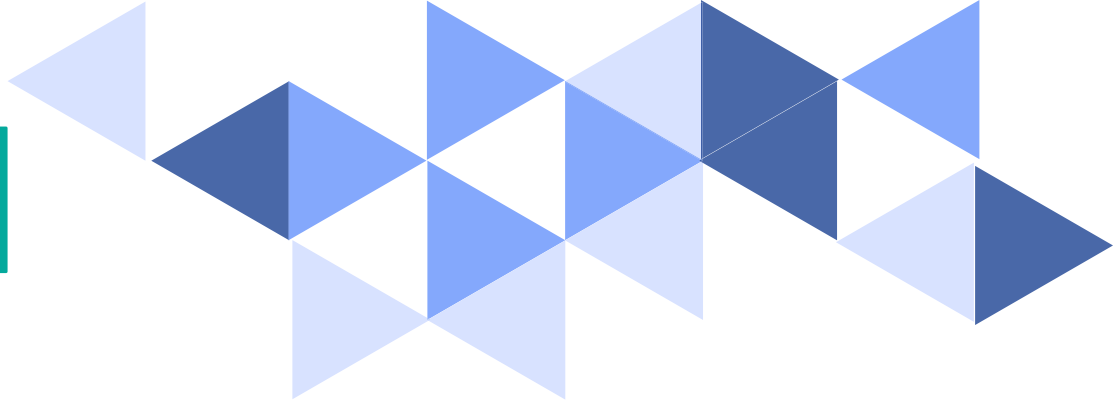
- a) Making new products/services, or
- b) Improving existing products/services, or
- c) Improving the process by which products are made

Industries with Qualified Research include, but are not limited to:

- 1) Manufacturers (Traditional or Contract)
- 2) Architects
- 3) Software Developers
- 4) Professional Engineering Firms



# Process



## 1. IDENTIFY COMPANY'S ACTIVITIES

MANY COMPANIES ALREADY USE JOB NUMBERS TO TRACK COSTS BY JOB.

JOB 01

JOB 02

JOB 03

JOB 04

## 2. QUALIFY R&D PROJECTS

FROEHLING ANDERSON WILL HELP IDENTIFY QUALIFYING R&D PROJECTS.

JOB 01



JOB 02



JOB 03



JOB 04



## 3. VERIFY THE ELIGIBLE COSTS

FROEHLING ANDERSON WILL HELP VERIFY THE QUALIFIED SPENDING ON R&D PROJECTS



WAGES



SUPPLIES



CONTRACT LABOR

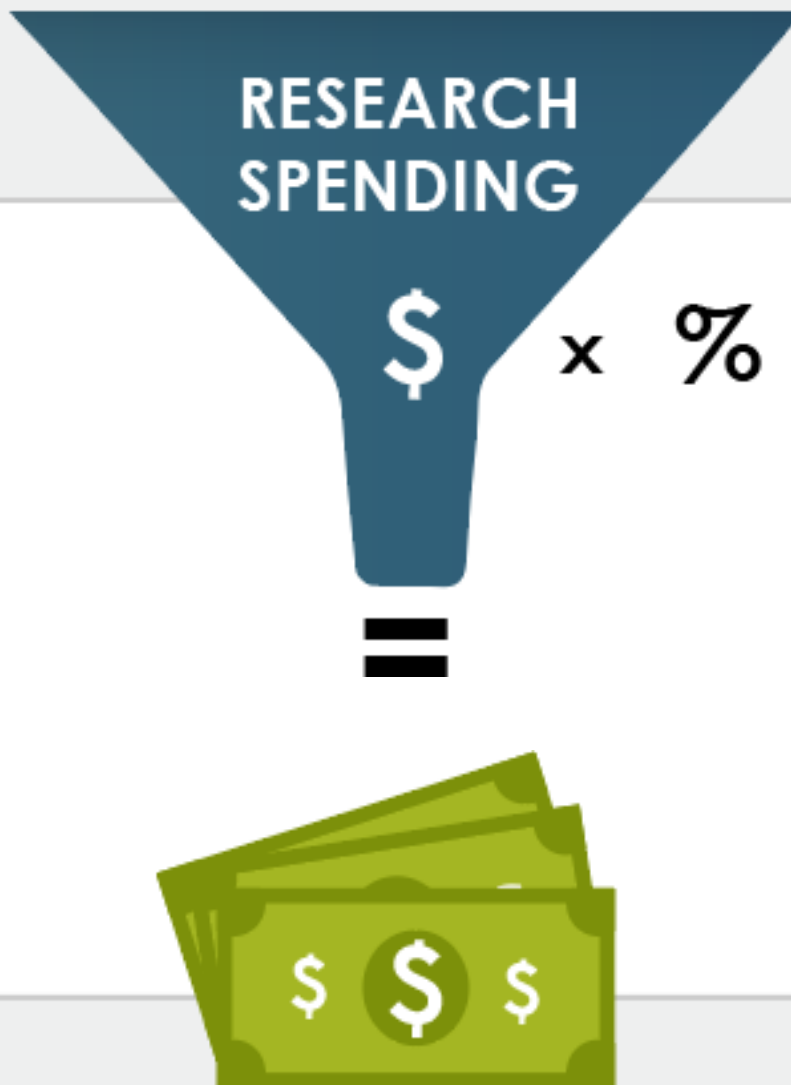


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## 4. QUANTIFY TAX SAVINGS

WE ADD UP ALL THE ELIGIBLE EXPENSES FOR THE TAX CREDITS, AND MULTIPLY THAT BY A PERCENTAGE.

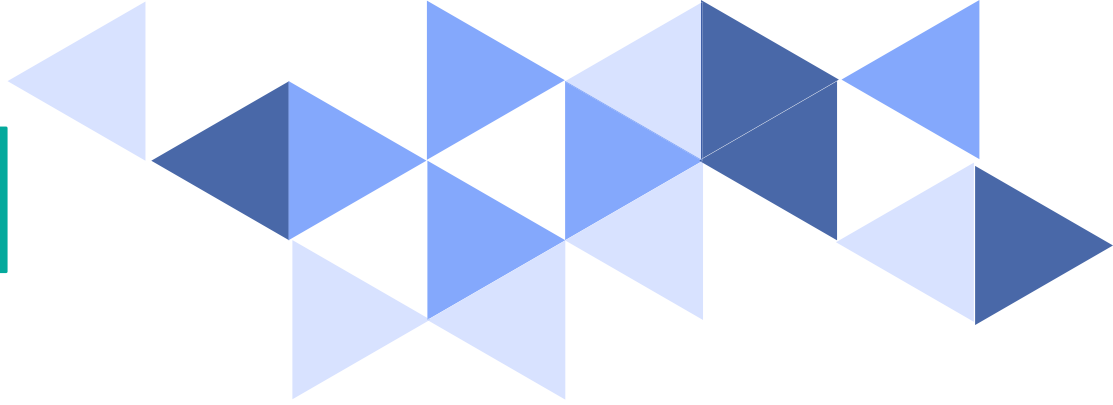


## 5. ENJOY YOUR TAX CREDITS

THE CREDITS BECOME “DOLLAR FOR DOLLAR” TAX SAVINGS.



# Four-Part Test



## THE “FOUR-PART TEST”

### 1) Permitted Purpose

- Intended to develop or improve a product or processes
  - Functionality
  - Performance
  - Quality/Reliability
  - Cost Reduction
- Not Aesthetics

### 2) Technical Uncertainty

- Capability or Methodology uncertainty for developing or improving a product or process
- Company does not initially know answers to questions like:
  - Can we reach our goal, or
  - How are we going to reach our goal?

### 3: Process of Experimentation

Examples include any of the following:

- Evaluation of Alternatives
- Prototyping
- Testing
- Modeling
- Simulation

### 4) Technological in Nature

- Activity must rely on principles of one of the following sciences:
  - Engineering
  - Physical Sciences
  - Computer Sciences
  - Biological Sciences
- No Social, Economic, or Psychological Sciences



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# Product Life Cycle



An R&D project typically begins once the company has identified what product or process will be created or improved upon and begins considering the technological challenges that will need to be overcome.

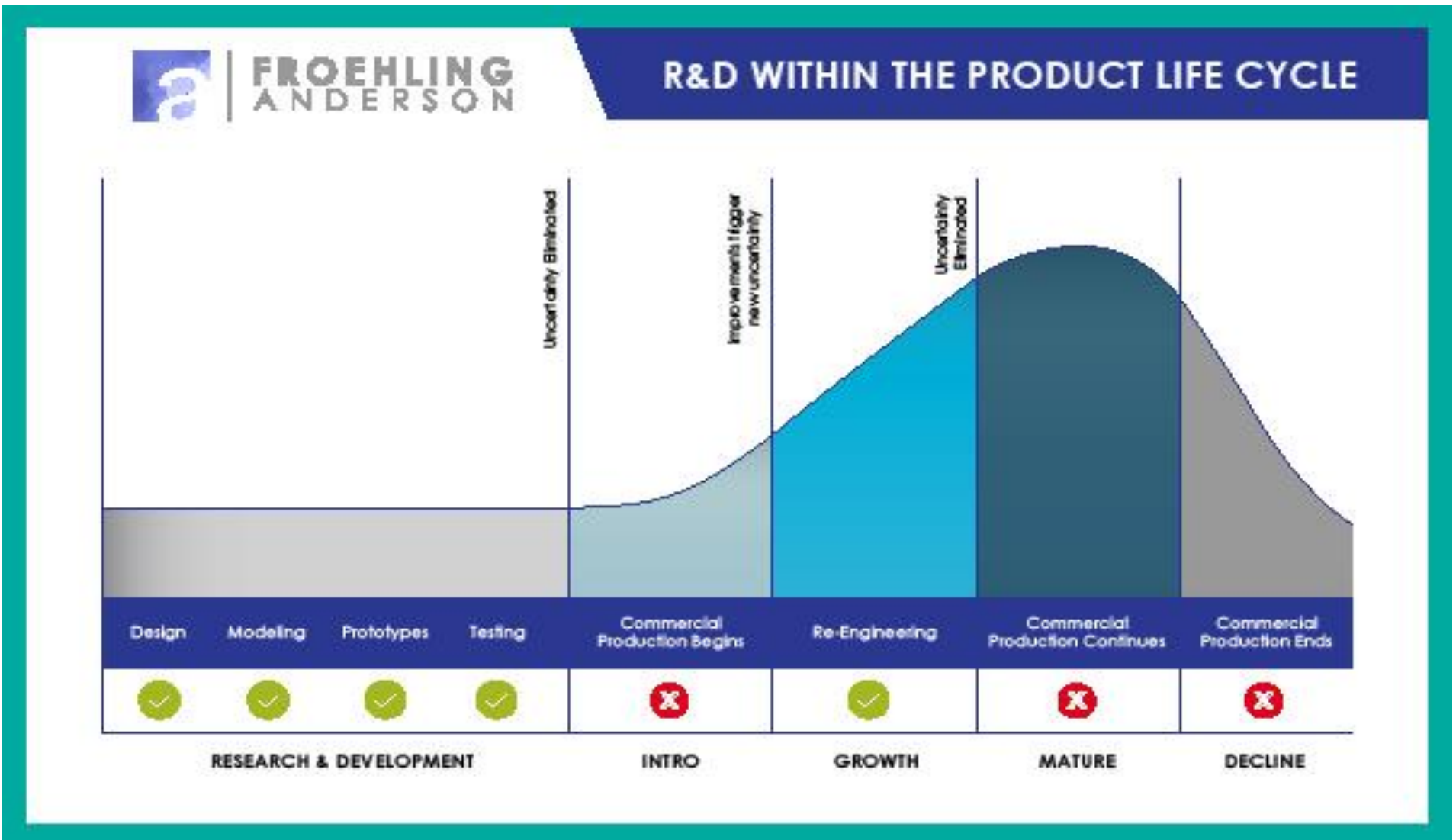
As the company attempts to overcome these challenges, nearly all wages, supplies and contract labor that are necessary to keep the project moving forward are considered necessary parts of the experimentation process, and should qualify as research expenses.

When the uncertainty has been eliminated, and the new product or process is ready to sell to the customer, it is no longer an R&D project, and expenses should stop qualifying for the tax credit.

In many cases, the product or process is improved upon in the future. Each time that occurs, a new R&D project exists if it meets all of the tests established on the previous page.

The infographic on the following page illustrates this process.

# Product Life Cycle





# Case Studies

Examples of how  
Froehling Anderson  
has helped clients with  
their R&D Tax Credits



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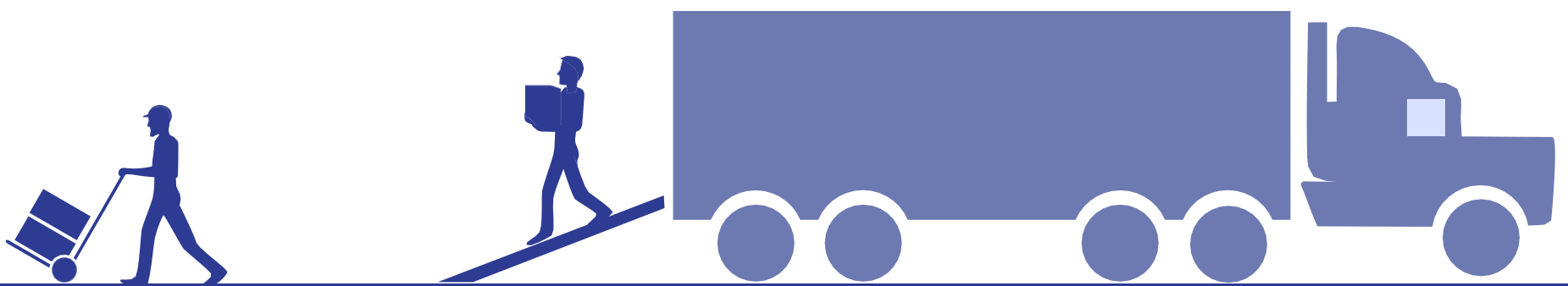
## Case Study #1

**Company #1:** Distributor, \$40 million revenue

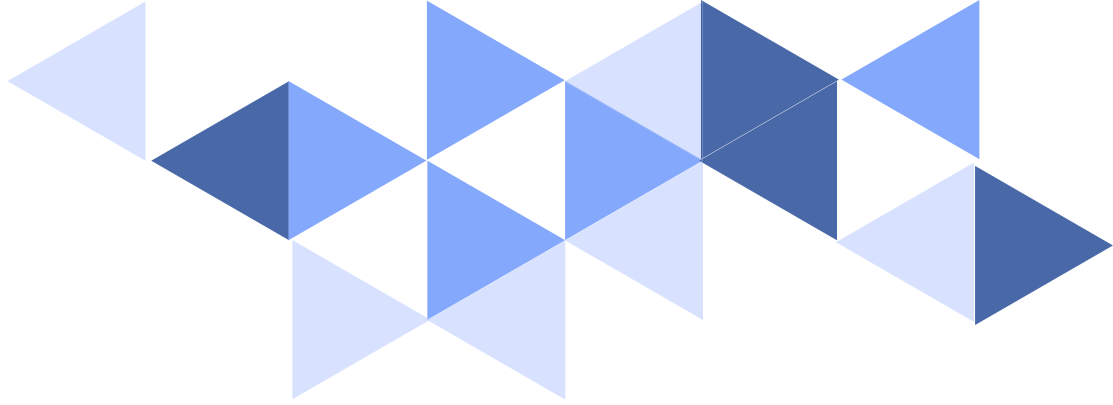
**R&D Process/Product:** Custom modifications to assemblies of off-the-shelf products

**R&D Tax Credit Application:** Wages of owners, salespersons, engineers creating the custom modifications.

**Total Tax Savings:** Average of \$136,000 per year since 2006



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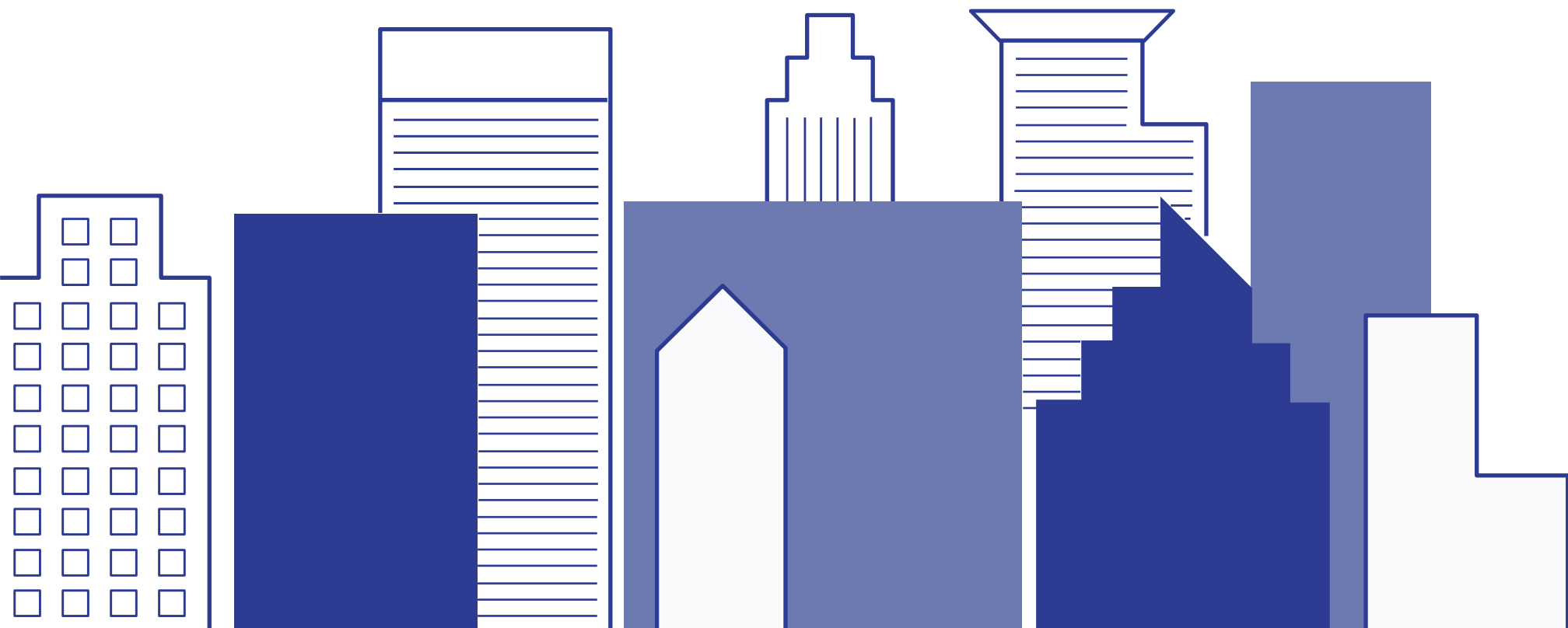
## Case Study #2

**Company #2:** Architect, \$4 million revenue

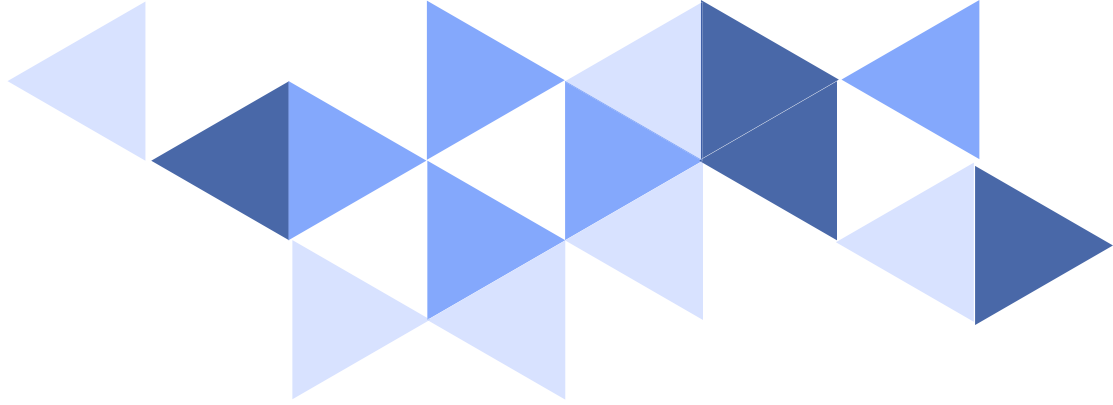
**R&D Process/Product:** Designing new buildings

**R&D Tax Credit Application:** Wages of professionals who designed the proposed builds.

**Total Tax Savings:** Average of \$83,000 per year since 2016



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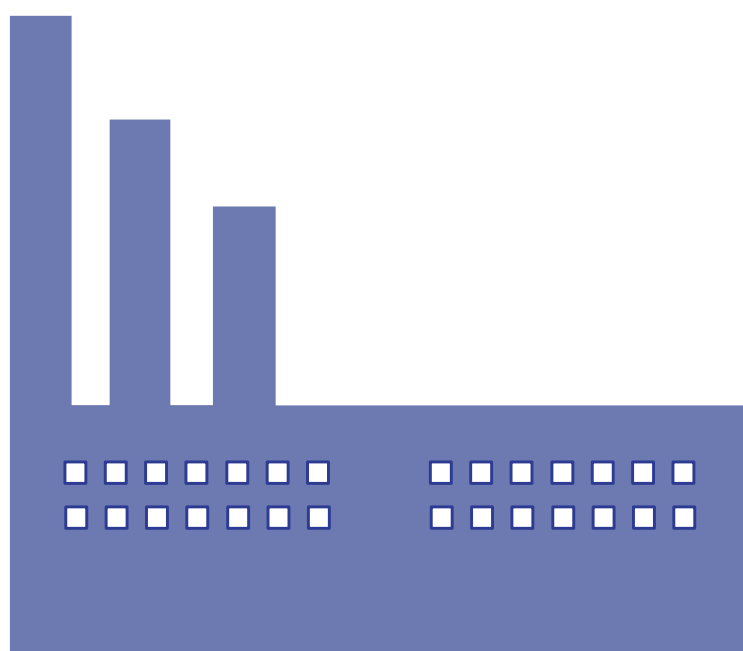
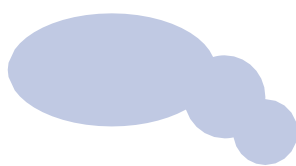
## Case Study #3

**Company #13:** Metal fabrication shop (Contract manufacturer), \$4 million revenue

**R&D Process/Product:** Product and process design for each new product requested by customers.

**R&D Tax Credit Application:** Wages of owners and employees who helped create the customized parts materials scrapped in the research process

**Total Tax Savings:** Average of \$62,000 per year since 2013



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# Why Froehling Anderson?

How we can help with  
your R&D Tax Credits



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## Comparison of Froehling Anderson and R&D Boutique Firms

Froehling Anderson performs R&D Tax Credit services to all qualified clients. A boutique R&D firm is a consulting firm that primarily focuses on R&D Tax Credit services. While boutique firms vary in their strategies and business practices, the table below summarizes our experiences with them, as compared to our practice:

	FROEHLING ANDERSON	BOUTIQUE R&D FIRMS
<b>Fee Structure:</b>	<i>Time and Materials:</i> Fees billed at standard hourly rates.	<i>Contingent fees:</i> Typical fee is 35% of credits generated.
<b>Cost to Benefit Ratio:</b>	<ul style="list-style-type: none"> <li>Ratio varies but is typically far less than what boutique firms charge.</li> <li>Costs / benefits are estimated upfront and shared before any fees are incurred.</li> <li>Engagement is well-managed to ensure costs stay near estimates.</li> </ul>	<ul style="list-style-type: none"> <li>Typical fee is 35% of credits generated.</li> <li>If credits are reduced during an audit, the cost ratio grows as benefit shrinks.</li> </ul>
<b>Objectivity:</b>	<ul style="list-style-type: none"> <li>CPAs must adhere to ethical standards and charging “contingent fees” would call objectivity into question.</li> </ul>	<ul style="list-style-type: none"> <li>Most boutique firms do not hire CPAs and are not subject to same ethical standards.</li> </ul>

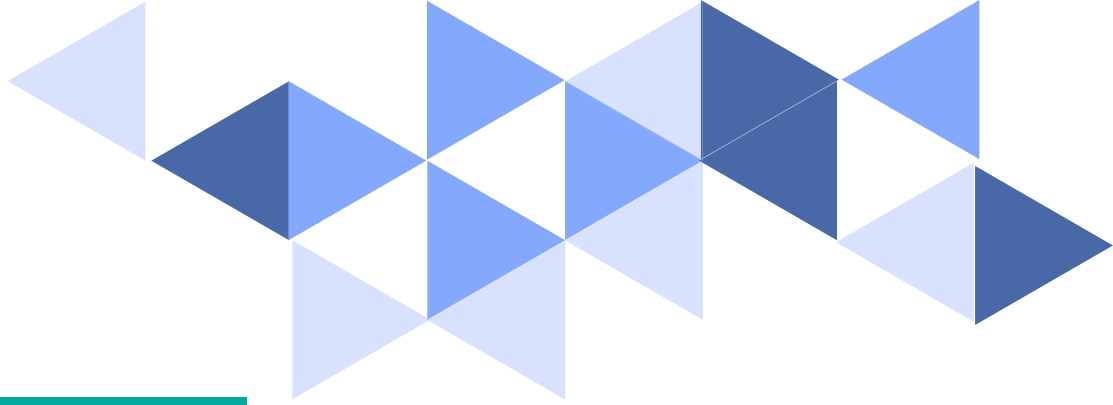


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## Comparison of Froehling Anderson and R&D Boutique Firms Continued...

	FROEHLING ANDERSON	BOUTIQUE R&D FIRMS
<b>Audit Guarantee:</b>		<ul style="list-style-type: none"> <li>No firm can guarantee that a credit will withstand an audit without being adjusted.</li> <li>Both Froehling Anderson and boutique firms guarantee that we will be available to defend our work to an auditor. The difference is in how clients pay for this audit representation.</li> </ul>
<b>Cost:</b>	Froehling Anderson charges for audit defense when the audit occurs, at standard hourly rates.	Cost is built into the contingent fee, effectively paying for audit every year.
<b>Better Value When:</b>	Audits are infrequent.	Audits are frequent.
<b>Audit Preparedness:</b>	We advise clients of their options for gathering substantiation, and the risks/benefits of each. The client chooses the option that best suits their risk tolerance.	The boutique firm decides which approach to take and does not discuss the risks/benefits of other options with the client.



## Why Froehling Anderson?

Froehling Anderson provides business consulting, tax, audit, and accounting services with the same personal delivery of high standards and quality that have sustained us for over 70 years.

Personal Interactions | Professional Solutions.

## Contact Us

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