

## R&D Project Definition

“Qualified activities for the research credit must pass a four part test”<sup>1</sup>

### IRS Four part test

- **Technological in nature**
- **Permitted purpose (discovering information)**
- **Elimination of uncertainty**
- **Process of experimentation**

#### Technological in nature (stage 0 qualification)

Activity must rely on the **principles of physical sciences such as**

- **engineering, biology, or computer science . . .**
- **does not include research in the social sciences.**<sup>2</sup>



## Qualified SR&ED Costs & Credits

-Wages -Materials --Contractors - Equipment

Federal credit	State credits	Less: 3 year avg.	Total credits
20%	10-15%	min. 50%	15-17.5%

### Eligible industries & project examples

Software  
 Manufacturing  
 Robotics  
 Chemicals  
 Pharmaceuticals

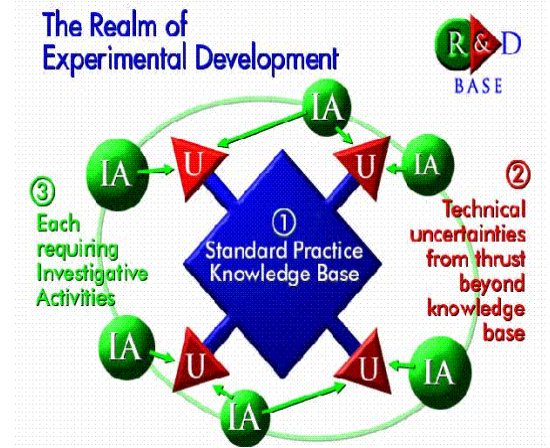
Patented products or processes

Download our free project template &/or view

R&D project examples within the [www.rdbase.us](http://www.rdbase.us) online project tracking system.



## Simplifying the U.S. R&D Tax Credit Program



## Documenting an R&D Tax Credit Project in 3 Easy Steps

[www.rdbase.us](http://www.rdbase.us)

1. IRS code Section 41(d) (1)  
 2. IRS code Section 41(d) (4)

## Step 1: Objective vs. Standard Practice



### Permitted purpose:

“Discovering information ... application of which ... development of a new or improved business component of the taxpayer ...

A business component may include a product, process, technique, formula, invention, or software.”<sup>1</sup>

### A) Define industry “standard practice”:

“discovering information [defined] as obtaining knowledge that exceeds, expands, or refines the common knowledge of skilled professionals in a particular field of science or engineering.”<sup>2</sup>

### B) Objective beyond standard practice:

Research is to be treated as conducted for a qualified purpose if it relates to (i) a new or improved function, (ii) performance, (iii) reliability or quality.<sup>3</sup>

1. IRS code Section 41(d)(1 & 4)
2. IRS code Section 41(d)(1 & 4)
3. IRS code Section 41(d)(3)(A)

## Step 2: Define Technological Uncertainties



### Illustrating Technological Uncertainty:

“the capability or the method of achieving that result, or the appropriate design (to achieve) that result, is uncertain as of the beginning of the taxpayer's research activities.”

“discovering information ... **does not require that the taxpayer succeed** in developing a new or improved business component.”

### Recommended Documentation Method:

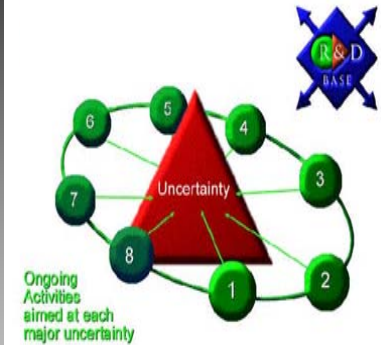
This is often best illustrated by defining the top 5 variables of uncertainty which are;

- Under the researchers control &
- Intended as basis for experimentation

Once the team agrees on these uncertainties the related research is typically eligible.

1. IRS code Section 41(d)(1 & 4)
2. Regulations to S.41(3)(ii)

## Step 3: Describe Related Activities



### Process of Experimentation:

“ is a process to evaluate more than one alternative designed to achieve a result where the capability or method of achieving that result is **uncertain** at the outset ... [it] may involve

- (i) Developing hypotheses
- (ii) Experiment
- (iii) Rejection & refining hypotheses”

### Recommended Documentation Method:

Ideally each researcher will document his or her activities to address ANY of the stated variables of uncertainty.

1. Regulations to S.41 para 5 , RIN 1545-A051