

ADP SmartCompliance[®]

Tax Credits – Research & Development Solutions for Life Sciences / Biotech Companies



Is Your Company Performing R&D Activities?

Your company might be missing out on potential tax savings. The term “research and development” is broad and includes creating or improving engineering processes, developing or improving a product, developing computer software and more. While not an exhaustive list, here are a few R&D activities that generally qualify for federal tax credit.

Developing, modifying, designing, supporting or supervising research activities for:

- ✔ Product design, development, and testing new scientific theories and research methods
- ✔ Prototypes of new products or extending the shelf life of existing products
- ✔ Creation of therapeutics, repurposing or reformulating existing drugs
- ✔ Designing wearables and digital health devices to monitor health and physical activity
- ✔ Establishing new technologies to further telemedicine
- ✔ Innovation in robotics, artificial intelligence or other new technology into existing products
- ✔ Designing new drugs, chemical compounds or medical devices
- ✔ New or unique blending technology or delivery systems for compounds or medicines
- ✔ Design and execution in experiments or trials

Research and Development Tax Credits

Life Sciences / biotechnology companies invest substantial amounts of time performing research and development (R&D) activities. Even if the development was not considered successful, companies can benefit from federal tax laws that extend and broaden the availability of R&D tax credits. If your company invests in qualified research activities, you may be able to reduce your income tax liability or your payroll tax liability.

The Savings Opportunity

While the Federal R&D Tax Credit was made permanent in 2015, additional legislation has been enacted to continue to encourage R&D expenditures in engineering, physical, biological and computer sciences. Starting with the Protecting Americans from Tax Hikes (PATH) Act¹, additional provisions were included in the 2022 Inflation Reduction Act.

More companies than ever may be eligible for the following significant benefits from the R&D credit:



Improving your business' cash flow through the R&D Credit



Positivity impacting your financial statements



Receiving a tax benefit and dollar-for-dollar tax savings of up to 20 percent of the eligible R&D spending above a base amount calculated from prior years



Claiming up to a \$250,000 tax credit against federal payroll tax liability for qualified SMBs and carrying forward unused R&D Credits for up to 20 years

The Eligibility & Documentation Process

While the R&D Credit can be beneficial for a broad range of companies, the eligibility and documentation requirements are stringent and complex. Companies claiming the R&D Credit should be prepared to perform a study that involves identifying, documenting and supporting the eligible expenses incurred in connection with qualified R&D activities, including contract research, supplies and internal wages.

How ADP[®] Can Help

ADP provides an experienced and practical approach for guiding our engineering services clients through the R&D tax credit process. Our group of specialized professionals go above and beyond to provide the peace of mind that comes with having a highly detailed study outlining qualified research activities and expenses. We carefully analyze each client as a candidate to claim the R&D tax credit.

¹ See IRC section 41 (2016); Protecting Americans from Tax Hikes Act of 2015, Consolidated Appropriations Act 2016 (P.L. 114-113), Division Q, H.R. 2029, 114th Congress (2015-2016).

Sources: Internal Revenue Code (IRC) Section 174

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More savings. More research.