

## **Research Credit Updates**

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When running a business it's important to make sure that you are aware of changes in legislation and new opportunities that arise as a result. One of the provisions of the PATH Act of 2015 retroactively restored and made permanent the credit for increasing research activities, or the research credit.

The research credit allows taxpayers to claim a general business credit allowed for qualified research expenses paid or incurred for qualified research activities.

Qualified research activities are generally technological in nature and are intended to develop new or improved business units. Qualified research usually has the objective to develop a new or improved function, performance, or reliability/quality. Some research activities, relating to cosmetic, style or other upgrades to existing business units may not qualify. It is always a good idea to consult your CPA before beginning an activity you think may qualify.

Qualified research expenses can be broken into three basic categories: wages, materials and supplies, and 3<sup>rd</sup> party contractors. These expenses may need to be tracked directly or allocated based on an applicable percentage, so it is important to consult your CPA early on in the process.

Another provision in the PATH Act related to the research credit was specific for eligible small businesses. The provision now allows eligible small businesses to use the research credits to offset their Alternative Minimum Tax (AMT).

There was also a provision in the PATH Act relating to startup small businesses and their available election with the credit. The provision allows startup small businesses to use a portion of the research credit to offset payroll tax instead of income tax.

The research credit can apply to a wide variety of businesses and activities. If you have any questions or think that you may have a research credit opportunity, please contact your Moss Adams professional.