RESEARCH & DEVELOPMENT TAX CREDIT

TRAINING FOR NEW CONSULTANTS

Tax Strategy Pro

PAY LESS. KEEP MORE.

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Module 1 – Welcome to Tax Strategy Pro's Consultant Training

We are so happy you have chosen to become a consultant with Tax Strategy Pro (TSP).

Our goal is for consultants to know more about the R&D tax credit than the company CPA. You should know these materials inside out and have more knowledge about section 41 of the tax code than a typical CPA, business owner or tax attorney. Your confidence level should be 10 out of 10.

This training program will take approximately 10 hours to complete. It is designed as a self-paced course so your time may vary. There are a total of 17 modules, some of which have quizzes at the end to test your knowledge. You will need to get the answers correct before you can proceed to the next module.

When you are in front of clients and referral sources, it is important that you know this information thoroughly as you are selling both yourself and TSP as specialists in obtaining research and tax development credits. Missing a quiz question will result in redoing the module, so put on your thinking caps and let's get started.

After successfully completing the course, a certification of training will be issued.

INTRODUCTION TO TAX STRATEGY PRO:

TSP and partners has more than 2,500 clients. We have gained more than $100 million, and counting, in refunds for our clients. We have done business in all 50 states.

MODULE 1 QUIZ

1. How much has TSP gained in tax recovery credits for its clients?

A. $200 million and counting
B. $100 million and counting
C. $1 billion and counting
D. $10 million and counting

2. How many CPAs specializing in R&D tax credits does TSP partner with?

A. 12
B. 16
C. 17
D. 10

3. How many states has TSP worked in?

A. 50
B. 40
C. 52
D. 45

Module 2 – History of the R&D Tax Credit

Why are R&D tax credits offered?

- To create jobs & keep them on American soil
- To encourage innovation, discovery, & technological advancement
- To promote entrepreneurship
- That's why the R& D incentive was passed into law - to improve U.S. businesses, to allow them to become more profitable and more competitive so they could increase their sales, hire more employees, expand to new locations, etc.

Learning the history of the R&D Tax Credit is important to overcome objections, particularly from CPAs.

THE 1981 TAX ACT & THE PATH ACT

The history of the R&D Tax Credit goes back to before 1980. In 1980, the U.S. was the largest auto manufacturer in the world. Then, Japan passed us.

HISTORY OF THE R&D TAX CREDIT	
1981	Economic Recovery Tax Act (ERTA) passed into law
2003	IRS did away with the "Discovery Rule"
2006	Alternative Simplified Credit (ASC) method introduced
1981 - 2015	The R&D temporary tax credit allowance was extended 15 times
2015	Protecting Americans against Tax Hikes (PATH) Act passed

ERTA was initially intended to be a stimulus for American businesses to help increase U.S. research spending. The credit expired 8 times and was extended 15 times. Protecting Americans from Tax Hikes (PATH) Act of 2015 made R&D tax credit permanent & expanded its provisions.

IMPORTANT TERMINOLOGY TO KNOW:

ERTA – Economic Recovery Tax Act was passed into law in 1981 as a temporary relief measure and contained the R&D Tax Credit.

Discovery Rule – In the beginning, to qualify for the R&D tax credit, companies had to engage in “new to the world” technology, meaning that technology was brand new – no one had ever used it before.

ASC – Alternative Simplified Credit method allowed a much simpler method for calculating R&D Tax Credits. This method includes the use of higher-level estimates, averages and owner interviews as part of the basis for calculating the R&D Tax Credit.

Section 41- the section of the Tax Code that pertains to the R&D Tax Credit

PATH Act – Protecting Americans Against Tax Hikes Act made the R&D Tax Credit a permanent part of the Tax Code.

FURTHER STUDY:

For those of you who’d like to take a deeper dive later, read more about Section 41of the Tax Code.

Click here to read.

MODULE 2 QUIZ

1. What year was ERTA passed into law?

A. 1985
B. 1981
C. 1983
D. 1991

2. What was the “Discovery Rule”?

A. Exploring new opportunities
B. New to the world technology
C. Finding new tax incentives
D. All of the above

3. What year was the PATH Act passed?

A. 2003
B. 2015
C. 2012
D. 2006

4. What does ASC stand for?

A. Alternative Standard Calculation
B. Advanced Simplified Credit
C. Alternative Simplified Credit
D. Alternative Simplified Calculation

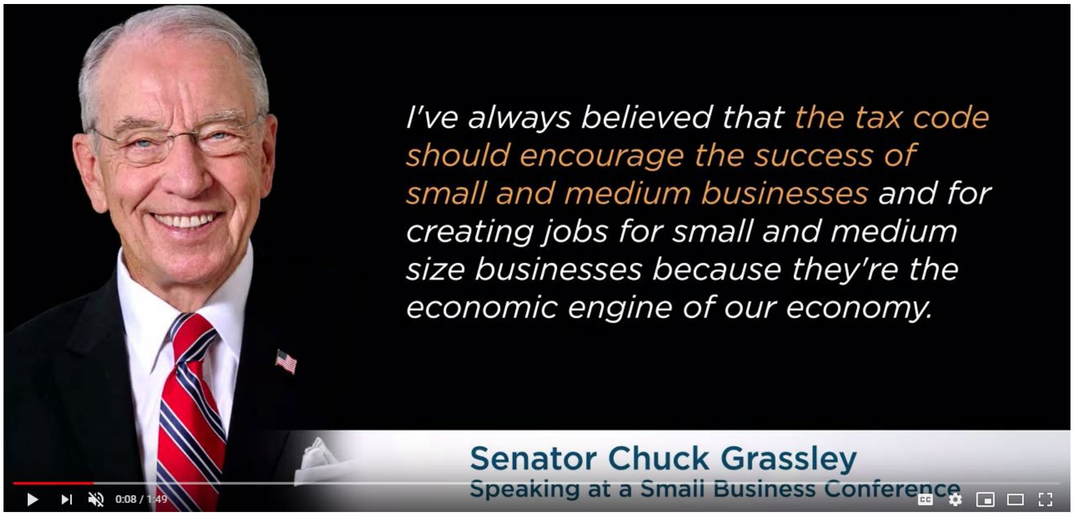
5. Which section of the Tax Code contains the R&D Tax Credit?

A. Section 40
B. Section 45
C. Section 49
D. Section 41

MODULE 3 – Learning about the R&D Tax Credit

AN OVERVIEW

The following video is of Senator Chuck Grassley speaking about his support of tax incentives, including the R&D tax credit. Click here to watch the video.



NUTS AND BOLTS OF THE R&D TAX CREDIT

Many CPAs and busines owners are not familiar with the Alternative Simplified Credit (ASC) method of calculating the R&D tax credit. Prior to the introduction of the ASC in 2006, the contemporaneous or "traditional" accounting method had to be utilized to calculate the R&D tax credit. This method is quite a burden, which is why one of the common objections you'll hear from owners and CPAs is that the process for documenting R&D expenses is too detailed and time consuming.

The ASC method makes it much easier to apply for R&D credits and opened the door for small and mid-sized businesses to get the R&D tax credits more easily.

The ASC method allows CPAs to do high-level estimates. They can use estimates, averages and interviews with the owner and the executive team. They'll use previous tax records to determine a baseline and use QRAs and QREs going forward along with the methodology the IRS has put out there in the ASC method to calculate these credits.

One of the main qualifiers for any taxpayer in receiving the R&D tax credit is that the taxpayer is incurring expenses while conducting Qualified Research Activities (QRAs) on U.S. soil.

With the addition of the Alternative Simplified Credit (ASC) accounting method, almost all businesses have the necessary documentation readily available.

Let's take a closer look at the ASC method.

ALTERNATIVE SIMPLIFIED CREDIT

Section 41 of the tax code provides a tax credit for increasing research activities. The ASC is one of four parts of the research tax credit. The ASC provides a simplified, more streamlined method for computing the research tax credit compared to utilizing the contemporaneous method for calculating the R&D tax credit.

QUALIFYING ACTIVITIES

The R&D tax credit is available to any taxpayer that incurs expenses for performing Qualified Research Activities (QRAs) on U.S. soil. The credit is a percentage of qualified research expenses (QREs) above a base amount established by the IRS. To qualify, an activity must meet all four requirements of the IRS' four-part test:

1. Elimination of Uncertainty
2. Process of Experimentation
3. Technological in Nature
4. Qualified Purpose

Examples of QRAs

» Manufacturing a product

» Developing a new (or improving an existing) product, process, or formula

» Research aimed at discovering new knowledge

» Experimenting with new material

» Testing involved to improve, alter, or make more efficient

» Paying outside consultants / contractors to perform above activities

With the ASC, the taxpayer's base period tax years are the previous three years. Beginning in 2009, the ASC equals 14 percent (14%) of the taxpayer's qualified research expenses (QREs) incurred in the current year above fifty percent (50%) of its average QREs in the three previous years. If the taxpayer has no QREs in any of those years, the credit is equal to six percent (6%) of the taxpayer's QREs in the current tax year.

Key terms are:

• Qualified services • Qualified research

• Qualified Research Activities (QRAs)

• Qualified Research Expenses (QREs)

MODULE 3 - SUB QUIZ

1. What is a QRA?

A. Quantifiable Research Action
B. Qualified Research Activity
C. Quota Reliant Articles
D. Quality Redundancy Achievement

2. What is a QRE?

A. Quantum Radiated Excellence
B. Quality Radiant Expertise
C. Qualified Research Expense
D. Quantifiable Research Expense

3. Which one of the following is an IRS requirement for a QRA?

A. Elimination of Uncertainty
B. Process of Experimentation
C. Technological in Nature
D. Qualified Purpose
E. All the above

4. If a company has no previous QREs on previous tax returns, what percentage is its credit for the current tax year?

F. 3% of the taxpayer's QREs in the current tax year
G. 5% of the taxpayer's QREs in the current tax year
H. 6% of the taxpayer's QREs in the current tax year
I. 9% of the taxpayer's QREs in the current tax year

QUALIFIED SERVICES

The term "qualified services" refers to directly engaging in qualified research or engaging in the direct supervision or direct support of research activities that constitute qualified research.

The term "direct supervision" means the immediate supervision of qualified research and the term "direct support" means services in the direct support of either persons engaging in actual conduct of qualified research or persons who are directly supervising persons engaging in the actual conduct of qualified research.

QUALIFIED RESEARCH

- Activity undertaken for the purpose of discovering information that is technological in nature and the application of which is intended to be useful in the development of a new or improved business component of the taxpayer; and
- Substantially all the activities of which constitute elements of a process of experimentation for the purpose of achieving a new or improved function, performance, reliability, or quality

Research is undertaken for the purpose of discovering information that is "technological in nature" if a process of experimentation used to discover such information fundamentally relies on principles of the physical or biological sciences, engineering, or computer science.

Research is not conducted for a qualified purpose if it relates to taste, style, cosmetic, or seasonal design factors.

A "process of experimentation" is a process designed to evaluate one or more alternatives to achieve a result where the capability or the method of achieving that result, or the appropriate design of that result, is uncertain as of the beginning of the taxpayer's research activities.

The term "business component" refers to any product, process, computer software, technique, formula, or invention which is to be held for sale, lease, or license, or used by the taxpayer in a trade or business of the taxpayer. A business component, such as a product, may consist of several subcomponents.

In some cases, a product itself does not meet the conditions of qualified research However, it is possible to consider the subcomponents of a product as separate business components to determine if the subcomponents meet the conditions of qualified research.

MODULE 3 - SUB QUIZ

1. Define "Qualified Service"

The term "qualified services" refers to directly engaging in qualified __________ or engaging in the direct ______________ or direct __________ of research activities that constitute qualified research.

A. Activities, support, supervision
B. Research, supervision, support
C. Development, observation, supervision
D. None of the above

2. Complete the following sentence by choosing the appropriate term:

Research is undertaken for the purpose of discovering information that is ______________ if a process of experimentation used to discover such information fundamentally relies on principles of the physical or biological sciences, engineering, or computer science.

A. Technological in nature
B. Scientific in nature
C. Not easily observed
D. None of the above

3. Complete the following sentence by choosing the appropriate term:

A ______________ is a process designed to evaluate one or more alternatives to achieve a result where the capability or the method of achieving that result, or the appropriate design of that result, is uncertain as of the beginning of the taxpayer's research activities.

A. Process of experimentation
B. Process of elimination
C. Process of evaluation
D. None of the above

4. Complete the following sentence by choosing the appropriate term:

The term _____________ refers to any product, process, computer software, technique, formula, or invention which is to be held for sale, lease, license, or used by the taxpayer in a trade or business of the taxpayer.

A. Business division
B. Sales division
C. Work product
D. None of the above

TYPES OF RESEARCH THAT IS DISALLOWED:

- Research conducted after the beginning of commercial production of the business component
- Research related to the adaptation of an existing business component to a particular customer's requirement or need
- Research related to the reproduction of an existing business component (in whole or in part) from a physical examination of the business component itself or from plans, blueprints, detailed specifications, or publicly available information with respect to such business component
- Surveys or studies, including efficiency surveys; activities relating to management functions or techniques; market research, testing, or development (including advertising or promotions) routine data collection; and routine or ordinary testing or inspection for quality control
- Research conducted outside the United States, the Commonwealth of Puerto Rico, or any possession of the United States
- Research in the social sciences, arts, or humanities
- Research to the extent funded by any grant, contract, or otherwise by another person or governmental entity; or
- Research related to certain types of software and computer lease payments.

MODULE 3 - SUB QUIZ

1.The following type of research is qualified under the IRS tax code: Research conducted after the beginning of commercial production of the business component.

A. True

B. False

2. The following type of research is qualified under the IRS tax code: Research conducted outside the United States.

A. True

B. False

3. True or False: The following type of research is not qualified under the IRS tax code: Research in the social sciences, arts, or humanities.

A. True

B. False

QUALIFIED RESEARCH ACTIVITIES	
Developing or designing new products, processes or formulas	Developing a new manufacturing process
Developing prototypes or models	Developing internal software solutions
Developing or improving software technologies	Testing new materials or concepts
Streamlining internal processes	Maintaining laboratory equipment
Documenting research activities	Designing or evaluating product alternatives
Certification testing	Environmental testing

QUALIFIED RESEARCH EXPENSES

To be eligible for the credit, QREs must be related to developing a concept, plan, or design for a product; be paid or incurred in connection with a trade or business; and be reasonable under the circumstances. Examples include:

» Wages paid to employees for performing certain qualified services

» Basic research payments made to qualified educational institutions and various scientific research organizations, allowable up to 75% of the actual cost

» Supplies (not subject to depreciation) necessary for conducting qualified research and development

» Payments to secure the use of computers for the use of conducting research; and

» A percentage of the compensation paid to contract.

MODULE 3 - SUB QUIZ

1. Which of the following are qualifying QRE's?

A. Wages paid to employees for performing certain qualified services.
B. Supplies (not subject to depreciation) necessary for conducting qualified research and development.
C. Payments to secure the use of computers for the use of conducting research.
D. All of the above

2. What percentage for wages paid to contract employees for conducting qualified research activities is allowed as a QRE?

A. Up to 50%
B. Up To 75%
C. Up to 70%
D. Up to 65%

3. What percentage of research payments made to qualified educational institutions and various scientific research organizations are allowed as a QRE?

E. Up to 50% of the actual cost.
F. Up to 75% of the actual cost.
G. Up to 60% of the actual cost.
A. None of the above

TAKEAWAYS

Click here for the QRAs & QREs

MODULE 3 - QUIZ

1. Define “Qualified Service”

The term “qualified services” refers to directly engaging in qualified _______ or engaging in the direct _______________ or direct ___________ of research activities that constitute qualified research.

A. Activities, support, supervision
B. Research, supervision, support
C. Development, observation, supervision
D. None of the above

2. Complete the following sentence by choosing the appropriate term:

Research is undertaken for the purpose of discovering information that is _______________ if a process of experimentation used to discover such information fundamentally relies on principles of the physical or biological sciences, engineering, or computer science.

A. Technological in nature
B. Scientific in nature
C. Not easily observed
D. None of the above

3. Complete the following sentence by choosing the appropriate term:

A _______________ is a process designed to evaluate one or more alternatives to achieve a result where the capability or the method of achieving that result, or the appropriate design of that result, is uncertain as of the beginning of the taxpayer’s research activities.

A. Process of experimentation
B. Process of elimination
C. Process of evaluation
D. None of the above

4. Complete the following sentence by choosing the appropriate term:

The term ______________ refers to any product, process, computer software, technique, formula, or invention which is to be held for sale, lease, license, or used by the taxpayer in a trade or business of the taxpayer.

A. Business division
B. Sales division
C. Work product
D. None of the above

MODULE 3 - QUIZ CONTINUED

5. The following type of research is qualified under the IRS tax code: Research conducted after the beginning of commercial production of the business component.

A. True
B. False

6. The following type of research is qualified under the IRS tax code: Research conducted outside the United States.

A. True
B. False

7. True or False: The following type of research is not qualified under the IRS tax code: Research in the social sciences, arts, or humanities.

A. True
B. False

8. Which of the following are qualifying QRE's?

A. Wages paid to employees for performing certain qualified services.
B. Supplies (not subject to depreciation) necessary for conducting qualified research and development.
C. Payments to secure the use of computers for the use of conducting research.
D. All of the above

9. What percentage for wages paid to contract employees for conducting qualified research activities is allowed as a QRE?

A. Up to 50%
B. Up To 75%
C. Up to 70%
D. Up to 65%

10. What percentage of research payments made to qualified educational institutions and various scientific research organizations are allowed as a QRE?

A. Up to 50% of the actual cost.
B. Up to 75% of the actual cost.
C. Up to 60% of the actual cost.
D. None of the above

Module 4 – Documenting the R&D Tax Credit

Although the Cohan Rule (more on this in the next module) provides some defense against keeping proper documentation, with the IRS, it's always best to document expenditures. Documenting expenditures to claim the R&D tax credit doesn't have to be onerous. Most companies have the necessary payroll records and invoices on hand.

Let's take a closer look at what the IRS expects in the way of documentation.

There is not a specific list of required documentation provided by the IRS. However, all companies applying for R&D tax credits are subject to the requirements outlined in Code of Federal Regulations (CFR) 1.41-4:

» A taxpayer claiming a credit under Section 41 must retain records in sufficiently usable form and detail to substantiate that the expenditures claimed are eligible for the credit.

DOCUMENTING THE R&D TAX CREDIT

There are two categories for the documentation:

Qualified Expenses

» Qualified Labor

» Qualified Supplies

» Qualified Contract Research

Qualified Activities

» Projects

» Job Descriptions

» Processes

Expenses are much easier to document than activities. Documenting qualified activities takes more time as companies grow their R&D activities. Without proper documentation, as the amount of R&D credit a company is claiming increases, the risk of an IRS audit also increases so it is important to create and implement an efficient documentation strategy.

Qualified Research Activity (QRA) Examples

» Developing or designing new products, processes or formulas

» Developing a new manufacturing process

» Developing prototypes or models

» Developing internal software solutions

» Developing or improving software technologies

» Testing new materials or concepts

» Streamlining internal processes

» Maintaining laboratory equipment

» Documenting research activities

» Designing or evaluating product alternatives

» Certification testing

» Environmental testing

Other Examples Include:

» Wages paid to employees for qualified services (this includes amounts considered to be wages for federal income tax withholding purposes)

» Basic research payments made to qualified educational institutions and various scientific research organizations, allowable up to 75% of the actual cost.

» Supplies (this may include any property not subject to depreciation) used and consumed in the R&D process

» Third party contract expenses for performing QRAs on behalf of the taxpayer, regardless of the success of the research, allowable up to 65% of the actual cost

QUALIFIED EXPENSES DOCUMENTATION

WAGE EXPENSES	SUPPLY EXPENSES	CONTRACT RESEARCH EXPENSES
Wage Forms	R&D Account (general ledger, GL)	Project / Job Account (GL)
W-2 Forms	Testing Account (GL)	Vendor Proposal
Time Sheets	Development Account (GL)	Vendor Report
Project Schedules	Invoices	
	Order Logs	

Wages are generally the largest portion of the expenses. Documenting labor by employee for each project is a great strategy, particularly when that is coupled with strong activity-based documentation.

Quality is preferred over quantity. Not all of these document types will be necessary but are provided as examples of acceptable documentation.

In creating an R&D documentation strategy, it's a good idea to create specific R&D accounts within your general ledger. This will allow for easy expenditure analysis and documentation. Creating more detailed, R&D accounting records will simplify the process.

Activity-based documentation is about creating strategies to record the R&D activities a company is performing to develop new and/or improved process, technique, product, formula or computer software that has uncertainty involved.

Documents providing the highest value will verify that the company's activities line up with the **"Four-Part Test:"**

1. **Permitted Purposes:** must relate to a new or improved business component's function, performance, reliability, quality, or composition.
2. **Technological in Nature:** must fundamentally rely on principles of physical sciences, biological sciences, computer science, or engineering.
3. **Elimination of Uncertainty:** must be intended to discover information to eliminate uncertainty concerning the capability or method for developing or improving a product or process, or the appropriateness of the product design.
4. **Process of Experimentation:** must constitute the process of experimentation involving simulation; evaluation of alternatives; confirmation of hypotheses through trial and error; testing and/or modeling; or refining or discarding of hypotheses.

It's important to note qualified activities must meet all four requirements. The activity must include a new or improved product, process, formula, computer software, program, technique or invention.

QUALIFIED EXPENSES DOCUMENTATION

Departmental Strategy

One strategy for documentation is to use a departmental approach. Documents using this approach include:

» Proposals

» Meeting Minutes

» Contracts

» Schematics

» Revision Drawings

» Project Files

» PowerPoint Presentations

These are examples of the documents one project can produce. If audited, the IRS examiner will review and evaluate the employees involved, their technical backgrounds, the types of activities they performed, the number of hours worked, etc.

Other supporting documents include:

» Job Descriptions

» Organizational Charts

» Supervisor Testimony

Project narratives are also a good documentation tool. These narratives record a project's successes, setbacks and failures, which documents reassessments and different approaches taken to achieve success. This creates a project history.

Process documentation includes:

» Progress Reports

» Test Logs

» Lab Books

» Bug Fix Logs

The best defense for receiving R&D credits is a strong documentation strategy.

MODULE 4 - SUB QUIZ

Which one of the following choices is a Qualified Expense?

A. Qualified Processes

B. Qualified Labor

C. Qualified Projects

D. None of the above

2. Which one of the following choices is a Qualified Activity?

E. Contract research

F. Processes

G. Payroll

H. None of the above

3. Is the following sentence True or False? Qualified activities must meet only one of the four requirements of the IRS' four-part test.

A. True

B. False

4. Which of the following statements is one of the qualifiers to meet the IRS' four-part test for a qualified activity?

A. Elimination of Uncertainty

B. Process of Experimentation

C. Technological in nature

D. All of the above

5. Which of the following type of documentation is acceptable to use when following the departmental approach to document qualified activities?

A. Proposals

B. Schematics

C. PowerPoint Presentations

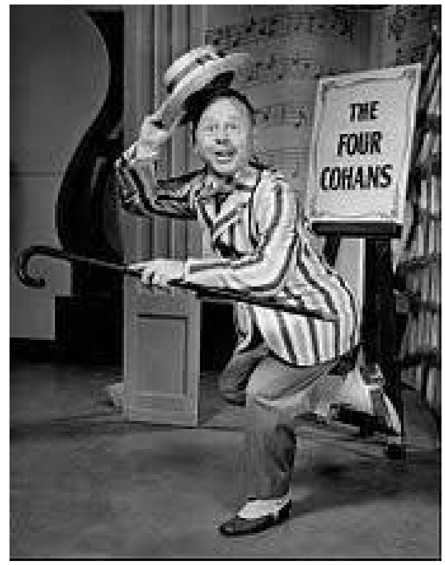
D. All of the above

Module 5 – The Cohan Rule

The Cohan Rule is based on the court case: Cohan v. Commissioner of Internal Revenue, 39 F.2d 540 (2d Cir. 1930)

This case established that companies and individuals don't necessarily have to have receipts and good record keeping to claim a refund from the IRS.

Background:



George Cohan was an actor, popular songwriter, playwright, and Broadway producer, particularly known for musical comedies like "George Washington, Jr." and "The Song and Dance Man". Among his musical hits were "Give My Regards to Broadway," "You're a Grand Ole Flag," and "Yankee Doodle Dandy."

As a wealthy man, Cohan was prone to spending a lot of money and paying in cash. When he filed his taxes in the 1920s, the IRS disallowed Cohan's exceptionally large entertainment and travel expenses because he could not produce the receipts for those expenditures. Cohan took the IRS to court when his case, Cohan v. Commissioner of Internal Revenue, was filed. The trial court upheld the IRS. But Cohan appealed the case to the Second Circuit Court of Appeals.

The Second Circuit sided with Cohan and created the Cohan Rule in the 1930s. It still stands today as an exception to strict IRS record keeping requirements. This rule allows taxpayers to provide "other credible evidence" that they actually incurred deductible expenses. In the Cohan case, Cohan himself testified to his expenses and the fact that he paid in cash. Other witnesses testified as to being guests at large and expensive dinner parties.

The IRS does not like the Cohan Rule, although it still stands. Usually, invoking it involves going to court and it's not always successful as a defense. However, the IRS or a court can be convinced about expenditures by sworn statements and other supporting evidence. This does allow another path to substantiate business expenses.

However, the best bet is to maintain good records, and documentation.

MODULE 5 - QUIZ

1. True or False - The Cohan Rule means you do not have to keep good documentation to claim a refund from the IRS?

A. True
B. False

2. True or False - Invoking the Cohan Rule as a defense typically involves taking the IRS to court?

A. True
B. False

3. True or False - The Cohan Rule allows taxpayers to provide other credible evidence, which can include witness statements?

A. True
B. False

Module 6 – State R&D Tax Credits

STATES THAT DO NOT OFFER THE R&D TAX CREDIT:

- Alabama
- Michigan
- Missouri
- Montana
- North Carolina
- Oregon
- South Dakota
- Tennessee

For more information, see the AIA State R&D Tax Credit Guide.

MODULE 6 - QUIZ

1. Which two states do not offer state R&D tax credits?

A. California and Idaho
B. Pennsylvania and Mississippi
C. South Dakota and Tennessee
D. Florida and Kansas

2. Which state below offers the R&D tax credit?

A. Montana
B. Arkansas
C. Oregon
D. Tennessee

3. Which state below offers the R&D tax credit?

A. Missouri
B. South Carolina
C. Rhode Island
D. Both B and C

Module 7 – The Process

Prior to COVID-19, consultants were always encouraged to set in-person appointments at the client's business and we still believe you will achieve better documentation for potential clients by actually visiting the client's workplace.

With that said, we are now seeing more applications completed through Zoom and phone calls.

STEP-BY-STEP PROCESS

1. Set appointment for interview & application
2. Meet with client to build their case
3. During the interview, ask the client these questions. Are you:
    - developing or designing new products, processes or formulas?
    - developing a new manufacturing process?
    - developing prototypes or models?
    - developing internal software solutions?
    - developing or improving software technologies?
    - testing new materials or concepts?
    - streamlining internal processes?
    - maintaining laboratory equipment?
    - documenting research activities
    - designing or evaluating product alternatives?
    - certification testing ?
    - environmental testing?
4. Remember – the more documentation, the better. You can never have too much documentation. As we have stressed in these training materials, proper documentation including owner and executive interviews are critical.
    - Zoom Recordings of conversations with client and their executive team
    - Photos of equipment and processes
    - Supplemental Information
    - Employee job descriptions and resumes
    - QRA's
    - Company brochures
    - Pages of your notes
5. Completing the Business Tax Incentive Qualification Form (BQF) Click here. NEED LINK
6. Fill out Qualification Form and submit to TSP at: **TaxCredits@TaxStrategyPro.com**
7. A secure folder is created by TSP for the new client and provided to the consultant.
8. Send "Welcome Email" to new client that includes the link to their secure folder with instructions for the client to click on the link. Inform them that a new window will open where they can upload the last three-four years of their tax documents.
9. Once client uploads their tax documents, they will click "send" to securely submit the tax documents.

10. TSP receives the client's tax documents. If there are any additional requirements, consultant will be notified.

11. Credit Projection Report, Consulting Agreement and CPA Engagement Letter prepared for all "viable" cases. These documents are sent to the consultant for review with client within 2-5 days of receiving all client documents.

12. Once client signs the documents, the completed Consultant Agreement and Engagement Letter is signed and submitted to **TaxCredits@TaxStrategyPro.com**.

13. TSP completes a forensic analysis of the tax returns and prepares amended tax returns for the client. (Consultant may be asked to gather additional data from the client during amended return preparation.)

14. Amended returns, invoices and instructions are prepared and sent to consultant via overnight delivery.

15. Consultant obtains client signatures and collects first half of payment as shown on master invoice.

16. Consultant requests FedEx overnight label: **Karen@FinancesMadeSimple.net**

17. Consultant emails signed IRS form 8821 to **Karen@FinancesMadeSimple.net**

18. TSP sends completed and signed amended returns to IRS. Client may request electronic copies of amended documents at: **Karen@FinancesMadeSimple.net**

19. Business owner receives checks from IRS and the consultant is notified of this by TSP.

20. Consultant collects final payment and post-sale opportunities are discussed.

21. Consultant gets paid.

22. TSP consultants are paid immediately upon TSP receipt of client payments. TSP cuts consultant checks five days a week.

MODULE 7 - QUIZ

1. Which of the following types of documentation should you include when submitting clients' Business Tax Incentive Qualification Form?

A. Zoom Recordings of conversations with client and their executive team and photos of equipment and processes.
B. Supplemental Information and QRA's
C. Employee Job Descriptions and Resumes
D. Company brochures and pages of your notes
E. All of the above

2. How do clients submit their tax documents to TSP?

A. Through the USPS
B. Through a secure link in an email
C. Via an overnight envelope
D. None of the above

3. When do clients pay fees for these services?

A. Upon receipt of their tax credit estimate
B. Upon receipt of their amended tax returns
C. Upon receipt of their refund check from the IRS
D. Both B & C
E. None of the above

Module 8 – Key Industries on Which to Focus

INDUSTRIES:

The following industries typically engage in QRAs and are good prospective clients:

Aerospace
Agriculture
Apparel
Architecture
Automotive
Biotech/Life Sciences
Breweries/Wineries
Chemical
Coatings and Adhesives
Construction
Dental
Distribution
Electronics
Energy
Engineering
Fabricators
Food Processors
Food Products
Furniture Makers
HVAC
Insurance & Financial Services
Job Shops
Logistics
Manufacturing
Medical
Oil and Gas Refineries
Optometry
Package Design
Pharmaceuticals
Plastic Injection Molding
Referral Partners and Sub-Consultants
Research and Development Facilities
Software
Telecommunications
Tool and Die
Transportation
Website Development & Social Media

Qualified Research Activity (QRA) Examples

» Developing or designing new products, processes or formulas
» Developing a new manufacturing process
» Developing prototypes or models
» Developing internal software solutions
» Developing or improving software technologies
» Testing new materials or concepts
» Streamlining internal processes
» Maintaining laboratory equipment
» Documenting research activities
» Designing or evaluating product alternatives
» Certification testing
» Environmental testing

[Click here for QRA Examples by Industry PDF.]

Special Note about the Manufacturing Industry:

These nine (9) manufacturing activities are excellent QRA's for the R&D Tax Credit:

1. Sales Time (determining requirements, quoting, etc.)
2. Design Meetings (collaboration among staff, etc.)
3. Flat Blank Layouts (design modifications, etc.)
4. Tool Making (design, build, tryout, etc.)
5. Engineering Process (new equipment, shop redesign, etc.)
6. Proof of Concept (process documentation, etc.)
7. Trial Production Run (first run of a product, etc.)
8. Quality Approval (PPAP, ISIR, etc.)
9. Shipping (package design, etc.)

These activities can also be applied to other industries as areas to document R&D activities.

CASE EXAMPLES

COMMERCIAL CONSTRUCTION COMPANY

- S Corp - 4 shareholders - 50 employees
- $262,000 regional/national incentives realized

DENTAL PRACTICE

- S Corp - 2 shareholders - 25 employees
- $134,000 regional/national incentives realized

ELECTRICAL CONTRACTOR AND SUPPLY

- C Corp - 1 location - 45 employees
- $123,000 regional/national incentives realized

MANUFACTURING COMPANY

- S Corp - 2 shareholders - 11 employees
- $146,069 regional/ national incentives realized

INDUSTRIES NOT SUITED FOR R&D

The following Industries, most in the service industry, are often not generally suited for R&D tax credits:

This includes:

- Restaurants
- Law firms
- Accounting firms
- Beauty salons
- Mortgage companies
- Insurance agencies

These types of companies are typically not considered to be low-hanging fruit.

Although there are always exceptions. As an example, TSP completed returns for a beauty salon that was working with cancer patients and developing specialty products for these clients.

QUALIFYING MARKERS

Again, there are always exceptions but, in general, here are three questions you can ask a prospective client to see if their business activities could qualify for the R&D tax credit:

1. Are they profitable?
2. Are they paying federal income tax?
3. And do they have employees?

Exceptions we have seen are that sometimes businesses have operating losses or had minimal tax liability in the past. They may want to create tax credits to carry forward at a cost of pennies on the dollar for the client company.

The number of years in business is also a good marker to use in qualifying a client. The R&D tax credit allows a three-year look back and amendment on federal returns and four years on state taxes. If a company been in business less than 2 years, it's probably not a good fit.

Does your prospect hold patents? This is an excellent qualifying marker. However, if they only hold one patent and it was received 15 years ago, they may no longer be actively involved in R&D processes.

Publicly traded companies also generally make good candidates. Profitable physicians and dentists are generally good candidates.

However, a sole practitioner doctor who has been in business less thana year is probably not a good candidate.

Our recommendation is to go through the interview and the application. Then, get the tax returns. Why not? For the client, there is no cost.

Don't ever justify a client based upon their "great personality." Small and large companies take the same amount of time to complete their BQF information.

As you become more seasoned at completing the BQF, you will quickly gain a better "feel" for who will make a good candidate and who will not.

PREQUALIFYING QUESTIONS

» At any time over the past 3-5 years, regardless of outcome, did the business engage in any projects or activities that aimed at developing a new (or improving upon an existing) business component in areas of function, performance, reliability or quality of the product, process, technique or formulation where the outcome was uncertain? For example:

- Developing orders signing new products, processes or formulas
- Developing a new manufacturing process
- Developing prototypes or models
- Developing internal software solutions
- Developing or improving software technologies
- Testing new materials or concepts
- Streamlining internal processes
- Maintaining laboratory equipment
- Designing or evaluating product alternatives
- Certification testing
- Environmental testing
- Quality Control improvements

☐ **Yes** ☐ **No**

» Of these projects or activities, was there an intent to discover new information that may result in one or more alternate solutions?

☐ **Yes** ☐ **No**

» Did the business (or 3rd party contractor hired by the business) identify and conduct a process for evaluating the above alternatives? For example: Trial and error testing, modeling and refining hypothesis?

☐ **Yes** ☐ **No**

» To the best of your knowledge, did these projects and activities rely on the hard sciences such as computer science, biology, chemistry, engineering, or physics which would exclude those centered around Social Sciences such as general marketing, humanities, philosophy?

☐ **Yes** ☐ **No**

MODULE 8 - QUIZ

1. Which industry below is a key industry for the R&D Tax Credit?

A. Optometry
B. Construction
C. Telecommunications
D. All of the above

2. Which of the following is NOT a Qualified Research Activity?

A. Streamlining internal processes
B. Documenting research activities
C. Certification testing
D. None of the above

3. Which of the following is a good example of a QRA in manufacturing?

A. Proof of Concept
B. Sales Awards
C. Design Meetings
D. Large Bank Accounts
E. Both A and C

4. Which type of business is not typically a good candidate for the R&D tax credit?

A. Logistics
B. Law Firm
C. Furniture Maker
D. Automotive

5. Which of the following markers could indicate that a business is a good prospect to receive the R&D tax credit?

A. Profitable
B. Pays in federal taxes
C. Holds patents
D. All of the above

Module 9 – Key Sales Points

- Over the past 35 years the government has enacted over 700 Congressionally mandated tax incentives & credits designed to help small businesses.
- According to 2016 Census Bureau data, there are approximately 5.6 million employer firms in the USA.
- Add in non-employer firms and that number increases to 24.8 million.
- Studies show only 5-10% of eligible companies take advantage of the incentives to which they are entitled.
- The main reason most businesses do not apply for the R&D Tax Credit is because they simply do not know about the credit.
- The other reason companies do not apply is that they self-censure – they tell themselves: "We aren't manufacturing parts, we don't have 200 employees, and we don't have millions in revenue. We probably don't qualify."
- There is a $90 billion pool of annual funds available for R&D tax credits.
- The largest companies claim the largest share of those funds. Don't leave money on the table that is available for your company.
- A general rule of thumb for an expected R&D refund recovery is 1-2% of gross annual revenues for companies running under normal operating conditions.
- There is ZERO Cost for TSP to conduct a CPR (credit projection report)
- TSP specializes in R&D tax credits.
- TSP has more than 2,500 clients.
- We have gained more than $100 million, and counting, in refunds for our clients.
- TSP does business in all 50 states.
- When a client moves forward, their fee is 33% of the amount of credits received.
- 50% of the client fee is due upon signing the agreement with TSP to move forward.
- The remaining balance of the fee is due when the client receives their refund check/credit carry forward acknowledgement from the IRS.

AUDIT GUARANTEE & POLICY

What does TSP do for clients in the event of an audit? We defend our work.

Should any State or Federal audit occur due to work performed by our partnering firm, American Incentive Advisors (AIA), and its consulting CPAs will defend its work regarding the application of claiming tax credits. Audits not directly attributed to work performed by our firm and its Consulting CPAs, may receive tax advice and defense assistance based upon an hourly rate determined by the Consulting CPA.

AIA will not be held responsible for fees, fines, penalties, interest, audit defense or any other expense due to incomplete, incorrect or inaccurate tax documents and/or information provided by the client.

MODULE 9 - QUIZ

1. How much annual funds are available for R&D tax credits?

A. $9 billion
B. $90 billion
C. $75 billion
D. 99 billion

2. How much of a refund recovery can a company operating under normal conditions expect to receive?

A. 3-5% of net annual revenue
B. 1-2% of net annual revenue
C. 3-5% of gross annual revenue
D. 1-2% of gross annual revenue

3. Why don't most companies apply for the R&D tax credit?

A. They don't know about it.
B. They self-censure
C. Their CPA didn't tell them about it.
D. All of the above.

4. How much is the fee for TSP to do the R&D tax credit work for the client?

A. 20% of the amount of the refund.
B. 25% of the amount of the refund.
C. 30% of the amount of the refund.
D. 33% of the amount of the refund.

5. True or False - In the event of an Audit, TSP will defend its work related to the R&D tax credit for an additional fee.

A. True
B. False

Module 10 – Overcoming Objections

FAQS FROM CLIENTS

Why haven't I already heard of this?

First of all, you're not alone. Only 5% of businesses apply for the credit each year. Research and Development tax credits are not a secret. The tax code contains more than six million words! Many parts of the tax code create opportunities for business owners and tax specialization:

- 179
- Cost-segregation
- 45L
- WATSI

These create opportunities for business owners that is beyond the scope of a general CPA.

Doesn't my CPA already know about this?

Most CPAs are much like a general practitioner in health care. R&D tax credits are an area of tax specialization. Generally, most CPAs are not aware of the updates, such as the ASC method, to the tax code regarding R&D tax credits.

Why hasn't my CPA done this?

R&D tax credits are a specialized part of the 6+ million-word tax code. Most company CPAs are like a general practitioner in health care. You wouldn't ask a general practitioner to perform open-heart surgery.

TSP specializes in recovering R&D tax credits. Don't leave money on the table. It costs nothing to see if you qualify.

I don't think I qualify, or my CPA doesn't think I qualify?

Again, it costs the client nothing to see if they qualify. The R&D tax credit is explained in Section 41 of the tax code. TSP's CPAs are experts in this section of the tax code.

Is this a lot of work?

Documentation is required. With that said, as a business owner, you probably already have it, or your CPA does. You probably have it and aren't aware of it. These are the types of documents needed:

- » Cost of goods
- » Cost of supplies
- » Payroll records
- » 1099s
- » Invoices / Notes
- » Plans

Will you show us the process?

There is no secret sauce or anything proprietary in what we do. TSP believes in being completely transparent with clients.

Consultants should never tell clients that we have IRS-approved software. There is no such thing. Saying something like this will cause you to immediately lose credibility and that potential sale is history.

What does it cost?

Again, TSP's policy is to be completely transparent with clients. When a client asks about cost, we advise a response along the following lines:

We will do an interview together where we will fill out our application. Then, you will upload your tax returns. Our CPAs will review your information and we will send you an estimate of the amount we can recover for you.

At this point, you will be able to decide whether you want to move forward. It costs nothing to get to this point. If you decide to proceed, you will sign a contract to secure our services. We go to work and complete your R&D tax work. Our fee is 1/3 of your recovery amount. We don't invoice off an estimate. We invoice once the tax work is done. Half the fee is due when we complete the tax return paperwork, the other ½ is due when you get your refund.

COMMON OBJECTIONS

1. The R&D Tax Credit is only for companies that are inventing something new.

This is technically true, although the invention does not have to be "new-to-the world," only new to your company. Research is:

» Activity undertaken for the purpose of discovering information that is technological in nature and the application of which is intended to be useful in the development of a new or improved business component of the taxpayer; and

» Substantially all the activities of which constitute elements of a process of experimentation for the purpose of achieving a new or improved function, performance, or reliability or quality.

2. The R&D is only for big companies.

Unfortunately, at this time, the majority of the companies who currently apply for the R&D tax credit are large companies, since only 5% of businesses apply. Don't leave money on the table that would be useful for your company.

3. The R&D is not for companies in my industry.

What industry is client in? You, as the consultant, should know if the client's industry is on our industry short list. If not:

» Is the client's company profitable?

» Is the client's company paying federal income tax?

» Does the client's company have employees?

It cost the client nothing to see if they qualify.

4. The R&D won't help me with my state taxes.

Many states have incentives involving R&D tax credits. Research what is available to the client before your initial sales pitch.

5. The R&D won't help my bottom line.

The companies we help with RF&D tax credits obtain recovery amounts ranging from $30,000 to $3 million. Would any portion of those tax credits increase your bottom line?

Again, it cost the client nothing to obtain an estimate of their potential recovery.

7. The R&D is only for companies with labs & test tubes.

Although there is an element of experimentation to R&D activities, that process of experimentation is a symptomatic manner of resolving an issue or improving a business practice within your company. That can be redesigning packaging, creating custom solutions for customers, or resolving a supply/demand issue. We just have to document and calculate those activities, which is where we specialize.

IRS DEFINITION: THE PROCESS OF EXPERIMENTATION FOR R&D PURPOSES:

I.R.C. § 41(d)(1) provides that in order to constitute qualified research, substantially all of the activities of the research **must constitute elements of a process of experimentation** related to a **new or improved function, performance, or reliability or quality**.

The legislative history explains that the term process of experimentation means **"a process involving the evaluation of more than one alternative designed to achieve a result where the means of achieving that result is uncertain at the outset"**. H.R. Conf. Rep. No. 99-841, at II-71, 72 (1986). **In addition**, a process of experimentation may involve:

» Developing one or more hypotheses

» Testing and analyzing those hypotheses (through, for example, modeling or simulation)

» Refining or discarding the hypotheses as part of a design process to develop the overall business component.

Treas. Reg. § 1.41-4(a)(5). Notably, there is **no statement** either in the regulatory rule (or in the examples applying the rule) that **any** activity, including software development, **per se constitutes a process of experimentation.** To the contrary, the preamble to these final regulations states as follows:

"The final regulations state that the mere existence of uncertainty regarding the development or improvement of a business component does not indicate that all of a taxpayer's activities undertaken to achieve that new or improved business component constitute a process of experimentation, even if the taxpayer, in fact, does achieve the new or improved business component. The Treasury Department and the IRS believe that the inclusion of a separate process of experimentation requirement in the statute makes this proposition clear.

However, the Treasury Department and the IRS have included this clarification in the final regulations out of concern that taxpayers have not been giving sufficient weight to the requirement that a taxpayer engage in a process designed to evaluate one or more alternatives to achieve a result where the capability or the method of achieving that result, or the appropriate design of that result, is uncertain as of the beginning of the taxpayer's research activities.

In particular, this clarification is intended to indicate that **merely demonstrating that uncertainty has been eliminated** (e.g., the achievement of the appropriate design of a business component when such design was uncertain as of the beginning of a taxpayer's activities) **is insufficient to satisfy the process of experimentation requirement.**

A taxpayer bears the burden of demonstrating that its research activities additionally satisfy the process of experimentation requirement.

8. It is all too good to be true?

Many companies make the mistake of thinking this, which is why so many self-censor themselves out of even trying. Approximately 1/3 of the applications we get result in a "no recovery" situation.

The good news is that this means 2/3 get a recovery between $30,000 - $3 million. Even better news, again, it costs you nothing to find out if you qualify.

MODULE 10 - QUIZ

1. Why don't many CPAs recommend the R&D Tax credits to their clients?

A. They don't understand the process.
B. They think it's risky.
C. They do not have a good source to refer this specialized tax work to.
D. All of the above

2. True or False - The sentence below describes the legislative history on the definition of the "process of experimentation: ... A process involving the evaluation of more than one alternative designed to achieve a result where the means of achieving that result is uncertain at the outset.

A. True
B. False

3. What types of documents are required to substantiate the R&D tax credit?

A. Cost of goods
B. Payroll records
C. Invoices
D. Plans
E. All of the above

4. In qualifying a potential client, what is one question you should always ask?

A. Does the company produce a quality good or service?
B. Is the company profitable?
C. Is the owner friendly?
D. Does the company utilize contract employees?

5. Approximately how many of the companies that TSP reviews receive a "no recovery" decision?

A. 43%
B. 25%
C. 33%
D. 36%

Module 11 – CPA Relationships

CPAs are our friends and make great referral sources. It is important not to alienate the company CPA.

To develop a good working relationship with the company CPA, it's important to understand the various CPA mindsets.

Type 1: The Conservative CPA

"I don't want to mess with the IRS – don't want my client to get in trouble – I try to be conservative. This is how I view the tax code."

Type 2: The Moderate CPA

"I'm going to do what I can for my client – don't want to put them on the IRS radar so I float somewhere here in the middle."

Type 3: The Aggressive CPA

"The tax code is not black and white. I want my client to get every dollar they have coming to them.

WHAT TO KNOW ABOUT CPAs:

1. They are typically not familiar with Section 41 of the IRC.

Generally, the company CPA is a general practitioner, rather than a specialist. TSP specializes in R&D tax credits. Our CPAs have excellent and specialized credentials for this type of work. No one can know all there is to know about the tax code. That's why there are specialists.

2. They and their firms do not assist clients with R&D Tax Credits.

This is a specialized area of the tax code that is perfect to refer to a specialty R&D tax credit CPA firm such as TSP.

3. Can be imitated or fearful of losing a Client.

CPAs should always serve their client's best interests. Gaining additional money for clients is an excellent way to solidify these relationships by going above and beyond to gain every available dime for their clients. Referring clients for specialized work is an added service that clients appreciate.

4. Also do not use many other tax credits, incentives and strategies.

Most CPAs operate as general practitioners who do not offer specialized tax work. With a tax code that exceeds more than 6 million words, there are many specialized credits available within the IRC and several specialized tax firms who work within specific areas. TSP specializes in R&D tax credit work. TSP partners with 16 rock star CPAs, Enrolled Agents and Tax Attorneys who are experts in obtaining R&D tax credits for clients.

5. They do not think their clients qualify.

This is usually because they haven't kept up with the evolution of the R&D tax credit. With the addition of the ASC method and the changed rules, many companies qualify. There is no cost to find out.

6. CPAs are afraid of Tax Audits.

CPAs work hard to do their client's tax work, completely, thoroughly and accurately. Oftentimes, these "general practitioner" CPAs see specialized tax credits like R&D as risky.

Use of the ASC Calculation Method helps in deterring audits. The name says it all, it's conservative and simplified. This is telling the IRS, "I'm taking a conservative approach in my R&D calculations." Using the traditional method might get you $100,000 but you better have really good documentation. "Using the ASC, you're might only get $75,000 but this allows you to make conservative estimates.

MODULE 11 - QUIZ

1. Which three types of "CPA mindsets" did this module identify?

A. Competitive, Moderate and Aggressive
B. Conservative, Moderate and Radical
C. Conservative, Moderate and Aggressive
D. None of the above

2. Which if the following statements are important things to know about CPAs in relationship to working with clients to get them onboard?

A. They are typically not familiar with Section 41 of the IRC.
B. They and their firms do not assist clients with R&D Tax Credits.
C. Can be imitated or fearful of losing a Client.
D. All of the above

3. What does the use of the ASC method signal to the IRS?

A. The company has detailed receipts.
B. The company has taken a conservative approach in calculating their R&D tax credits.
C. The company has a long history of applying for the R&D tax credit.
D. None of the above

Module 12 – Will I Be Audited?

The IRS can audit any taxpayer randomly and at will. However, claiming the R&D Tax Credit does not "trigger" an audit.

» When filing for the R&D Tax Credit, the IRS requires paper copies with ink signatures to be mailed. The forms are then scanned in and assigned to a case manager who has 16 weeks to work the file. The case manager has the authority to pump the brakes. It doesn't make sense for the Agency to come back and audit when they had months to review the original filing.

Q: What does TSP do for clients in the event of an audit? We defend our work.

TSP'S AUDIT POLICY

Should any State or Federal audit occur due to work performed by our firm, TSP and its consulting CPAs will defend its work regarding the application of claiming tax credits. Audits not directly attributed to work performed by our firm and its Consulting CPAs, may receive tax advice and defense assistance based upon an hourly rate determined by the Consulting CPA. TSP will not be held responsible for fees, fines, penalties, interest, audit defense or any other expense due to incomplete, incorrect or inaccurate tax documents and/or information provided by the client.

STANDARD CPA ENGAGEMENT LETTERS

Standard CPA engagement letters say: "we as the accounting firm are not liable for this information. We did not investigate or validate the information. If you get audited, we are not obligated to defend you. Although you can hire us at $300/hour to talk with the IRS or the state dept of revenue on your behalf."

We stand by any portion of our work in the event of an audit and will defend our work at no additional cost to the client.

R&D TAX CREDIT REPORT

Upon request, after TSP completes it work, we will provide a 48-page R&D Tax Credit Report that discusses the work we did and includes:

» Narrative specific to client company

» Actual QRAs the company participated in

» Calculations

» Form 6765 (a version of the R&D credit calculations)

This report complies with IRS audit guidelines.

MODULE 12 - QUIZ

1. What is one of the best facts to dispel fears that applying for the R&D tax credit will trigger an audit?

A. The IRS is systematic and predictable in choosing companies to audit.
B. The R&D Tax credit requires paper forms to be mailed and is assigned to an IRS case manager who has 16 weeks to review the application.
C. The IRS is too overwhelmed to conduct audits.
D. All of the above

2. Do standard CPA engagement letters include audit representation?

A. Yes
B. No

3. What does the TSP 48-page R&D Tax Credit Report include?

A. Narrative specific to client company
B. Actual QRAs the company participated in
C. Calculations
D. Form 6765 (a version of the R&D credit calculations)
E. All of the above

4. True or False - The TSP 48-page R&D Tax Credit Report complies with IRS audit guidelines.

A. True
B. False

5. True or False - The TSP 48-page R&D Tax Credit Report is automatically supplied to clients by TSP upon completion of the R&D tax credit work.

A. True
B. False

Module 13 – Special Factors to Consider

OWNERSHIP OF MULTIPLE BUSINESS ENTITIES

When a perspective client owner has ownership interest in multiple companies, a best practice is to take each company through the R&D qualification interview and completion of the BQF.

Here's why:

Most owners are thrilled when they receive their calculations and see how much money has been left on the table for their use.

This leads them to want to put their other companies through the process.

Each time we amend a company's tax returns to include the R&D tax credit claim, the owner's personal 1040 and K-1 forms are amended.

- So, company 1 is amended, an amended K-1 and 1040 is created for each owner.
- Company 1 owners request work to be done for company 2.
- Another amended 1040 and k-1 is created and sent to the IRS.

Now, the IRS case worker is perplexed. They have multiple 1040s for each owner. Determining which one is correct can be very confusing and can result in the confusing paperwork being put in another stack to be looked at later – MUCH later.

It's best to avoid this situation by doing all companies at the same time.

MULTIPLE BUSINESS OWNERS

Understanding the company's structure is especially important and getting involved with more owners provides more sales opportunities.

When there are multiple owners, all owners should be onboard and participate.

As an example, we once worked with a construction company that was owned equally by two brothers. We did the qualification work and estimates and could have gained them a $1.6 million refund. One brother said no.

For clarification, this is not a corporate voting matter. We can do the work, even if one owner says "No." However, this tax work will generate a newK-1, which is supposed to be submitted. If someone is not going to participate, you might want to walk away from that potential client.

You don't want owners going through the process kicking and screaming. Creating new K-1s can cause disgruntlement among owners. Each owner is supposed to amend their personal returns when new K-1s are filed.

In most cases, when there are multiple owners, all owners should be on board and all should participate.

However, if someone has an exceedingly small ownership interest, that owner may not have to be onboard.

CREDIT CARRYFORWARDS (TREATMENT & OPTIONS)

Understanding the Credit Carryforward concept is import. Here is an example to illustrate this concept:

The client has a profitable company that is paying taxes.

Based on their track record, they average paying $80,000 a year and have for years.

We do their R&D work and find them $100,000 in credits. They have already paid in $80,000 so they can choose to receive a check for $80,000 and carry forward $20,000 in credits for next year's taxes.

Or they can opt to carry forward all the credits. With R&D tax credits, unused R&D tax credits may still be available to eligible businesses if they file amended tax returns for the years in which they failed to claim the credit. Businesses can then carry forward the unused credits for up to 20 years after first carrying them back for one year.

Obviously, each case is different, depending on the company's circumstance. In most cases, we can advise them on their options and best course of action when we do their estimate.

As another example of credit carry forwards, suppose the company owner has $60,000 in tax liability but has not yet paid those taxes. You cannot receive a refund on money you have not paid in. We do the R&D work and find $100,000 in credits. In this case, $60,000 of the credits would be used to pay the tax liability and $40,000 would be carried forward as credit against future tax liability.

FRANCHISES

Each franchise owner must file separately for R&D tax credits. The corporate office cannot do this on behalf of franchise owners.

ETHICAL CONSIDERATIONS

When a business continuously loses money, you must look at ethical considerations.

For example, say a company has $1.6 million in net operating losses. Perhaps, we could create $300,000 in credit carry forwards. Those carry forward credits are good for 20 years. Ethically, you must ask if they will ever realistically use these credits. Why would we calculate those and charge the client for it? It is most likely that those credits will never be used.

MODULE 13 - QUIZ

1. If a business owner owns multiple companies, is it a best practice to have all their companies go through the R&D Credit application at the same time?

A. Yes

B. No

2. Why is it a best practice for owners with multiple companies to have all their companies go through the R&D credit qualification process at the same time?

A. When one company qualifies, they will want to see if their other companies qualify.

B. Each time the R&D tax credit is retroactively applied, it generates a new K-1.

C. When new K-1s are generates, owners should amend their personal taxes.

D. Multiple K-1s and amended owner personal tax returns confuse the IRS.

E. All of the above

3. When a company has multiple owners, is it a corporate voting matter to decide if the company can proceed with applying for the R&D tax credit?

A. Yes

B. No

4. True or False - When a company applies for the R&D tax credit, it is mandatory for them to create a credit carry-forward claim.

A. True

B. False

5. True or False - Franchisees do not need to individually apply for the R&D tax credit as this is a tax matter that is handled by the corporate office.

A. True

B. False

6. If a company has consistently lost money, is it a good candidate for applying for the R&D tax credit?

A. Yes

B. No

Module 14 – Building Your Business

EXISTING RELATIONSHIPS

This is not the type of industry that is suited to cold calling. It's a big ask to get in front of an owner and get into their tax returns from a cold call.

This is a relationship-type business.

Consultants who have existing relationships with multiple business owners are well prepared. It's better to have existing relationships or have someone introduce you to the owner.

And, once you have achieved success for a couple of companies by getting them the R&D tax credit, they will refer on their own – you don't even really have to ask for referrals. People go through this process and get money back – this makes them believers and they tell their business owner friends.

The automatic referrals for this business are unparalleled, compared to other types of sales work.

CPAS AND ACCOUNTING FIRMS

Accounting firms and CPAs can be great referrals and business partners – it's a value add for their clients. Once they see the amount of credits available to clients, they will become even more sold on these types of referrals as they become a hero to their clients for providing a valuable resource.

They regularly farm out specialized tax work. They're main concern is that their clients are taken care of so that they don't lose a client. You can walk them through our process so that they can rest assured that their clients will be treated well.

Make sure they receive information on the extraordinary expertise of our R&D tax CPAs.

You can also set up referral fees for them as an incentive to send work your way.

TRADE SHOWS, CONFERENCES AND CONVENTIONS

Every industry has some sort of trade show conference or convention at least once a year. These are excellent sources for forming new relationships. By purchasing booth space at one of these events, you gain total access to hundreds of business owners.

It only takes one!

You only need one client gained to make it worth the price of admission.

REFERRALS AND PEOPLE OF INFLUENCE

Not many people say “no” to free money.

Consultants are free to set up whatever incentives and referral fees they feel works best with their personal networks.

You can bring people of influence in and pay them a small percentage referral fee just for productive introductions.

Traits of Influential People

Look for the following characteristics to determine truly influential people. Look at your own characteristics to see if you are conveying these traits to potential clients.

From Entrepreneur: 15 Traits That Set Influential People Apart by Deep Patel

1. They act deliberately. Influential people have purpose and remain conscious of their actions and of how others may perceive them. They focus on ways to create the impact they wish to have and achieve the outcomes they are aiming for. They give constructive feedback and show appreciation for hard work. They aren’t sneaky or divisive; they make their intentions known with clear objectives and goals.
2. They speak thoughtfully and listen. They mean what they say. Influential people don’t engage in gossip or unfounded attacks on other people. They seek to rise above the petty. Just as important, influential people know when to quiet their inner dialogue and put the focus on those around them. This is the best way to gain insights and information you might otherwise miss.
3. They take action. Influential leaders aren’t afraid of taking risks or making decisions. They don’t allow themselves to become stuck or paralyzed by an unforeseen situation. They take action, move forward and find a way around roadblocks. They think before they speak, but they don’t hesitate to jump in when necessary. They set up productive daily routines that help them stay focused on accomplishing their goals. But even when they’re acting spontaneously, they’re thinking strategically, ensuring they have a plan of action even in the midst of challenges and change.
4. They’re always learning. They understand the importance of cultivating a mind that is open to new ideas and perspectives. They consider themselves students of life, continually upgrading their skills and challenging themselves to expand their knowledge. Knowledge can give you the tools to adapt to different situations and understand what’s going on around you. After all, knowledge is power, and power is influence.
5. They have integrity. Influence is something that must be earned through integrity and honesty. Influential people recognize that others will hold them up as an example to emulate. They are authentic and credible in their actions and encounters, and they understand that their reputation is the foundation of their ability to influence and lead. By being consistently trustworthy and honest in your dealings, you’ll inspire others to adopt your ideas and support your vision. Influence and respect come by doing what you say you’ll do and following through on your promises. You must be seen as reliable and sincere, genuine and thoughtful.

6. They connect. Constructing genuine relationships has a way of melting people's defenses and making them open to new ideas. This is why influential people work to relate to others in a deep and meaningful way. They act as a conduit to bring people together and help others feel connected to one another. You must look for ways to get those around you excited and interested in something -- involved in a larger goal or project. Influential people find ways to add value to the groups they collaborate with and have a positive impact on those around them.

7. They're focused on what really matters. Influential people don't allow themselves to become embroiled in trivial matters or silly competitions. They aren't trying to win every argument or steer every conversation. They're looking to truly understand others and help others feel part of something larger than themselves. They're focused on what really matters -- on long-term goals and achievements, and on making sure the end result meets the highest standards. You must be determined to succeed and willing to work hard to make it happen.

8. They have high expectations for themselves and others. Influential people draw others to them. They're passionate and engaging, and they compel others to believe in them. Influential people set high expectations for themselves and others. They have relentless enthusiasm that drives those around them to accomplish amazing things and to stretch themselves beyond their comfort zones. They encourage others to rise to the challenge and confront obstacles. They understand that failure is possible, but at the same time they recognize that success won't happen if they don't try.

9. They understand themselves. To be an effective and influential leader, you need to understand yourself first. Influential people take time to reflect on who they are and understand their values and larger goals. They're aware of their thoughts and feelings, and of how they process and convey those emotions to others. They're comfortable in their own skin and are aware of how they react to various situations. They understand their motivations and what makes them tick.

10. They focus on their strengths but understand their weaknesses. Influential people recognize and learn to rely on their strengths, but just as important, they recognize the areas they are weakest in. By being aware of your vulnerabilities, you can take steps to manage or counter them. True self-awareness comes from seeing yourself clearly. Your strengths can propel you to incredible heights and help you leverage influence over others. But your weaknesses can hold you back from achieving all the things you dream of. You can't fully appreciate who you are, and you can't truly leverage your influence, until you recognize both your strengths and your weaknesses.

11. They make themselves indispensable. To have influence means to have prominence -- it means there is something about you that others see as significant and important. To be influential, you must find ways to become indispensable: someone who solves important problems and is essential to accomplishing significant goals. Influential people find ways of making themselves continually relevant and vital by updating their skills and leveraging their strengths. They're nimble and versatile enough to adapt to changing circumstances. They create synergy and collaboration between stakeholders.

12. They value others. Influential people understand the importance of acknowledging and recognizing those around them. They let others shine, knowing that the success of others doesn't diminish their own achievements. They value those who have been part of their journey. They spend time really listening to those around them. They understand that keeping lines of communication open is key to avoid closing themselves off to opportunities. They see the strengths in others and surround themselves with those who can help fill in areas they are weakest in.

13. They're constantly analyzing. Influential people are able to quickly analyze and assess situations. They understand that they need to stay relevant as they face challenges. Circumstances and conditions are constantly changing, and influential leaders know to keep close tabs on their environment so they can adjust. They stay up on trends and remain aware of what competitors are doing, but they also welcome the critical thinking of others, and they embrace innovation and creative problem solving.
14. They make sure others have a voice. Influential people have empathy for others, and they want to make those around them feel understood and heard. They recognize that everyone needs a voice and must be able to speak their mind. Empowering others is key to making sure they feel valued and included. If you want to be an influential leader, try disengaging your mouth for a while and engage in active listening, during which you really hear what other people are saying. Listening to those around you is paramount to promoting open and honest communication and getting concrete feedback from others.
15. They inspire. Influential people convey optimism. They see possibilities and opportunities that others miss. They inspire us because we want to be like them. They raise us up and make us want to do the right thing, to be the best that we can be, to keep pushing boundaries. To be influential, you must push yourself and others to do what seems impossible. You must take on the hard task or the project that seems overwhelming, but that will be amazingly fulfilling and important if you can accomplish it. As an influential leader, you wield the ability to spark change in those around you. Make sure it's for the better.

DEEPER NOT WIDER

Once you identify an industry, a best practice is to go deeper within that industry rather than wider across more industries.

There are all sorts of niches within an industry.

For example, within dentistry, there are orthodontics and Invisalign.

CHAMBERS OF COMMERCE AND NETWORKING GROUPS

These types of organizations are great places to meet potential clients. When you are just beginning, we recommend looking at chamber associations in cities on the outskirts of larger metropolitan areas as these are less expensive for membership dues.

Module 15 – Frequently Asked Questions

Q. How many years can we go back and amend?

A. In most cases, we can go back three year on federal income taxes and four years on state taxes.

Q. Can we do LLC's, S-Corps, C-Corps, Sole Proprietors and ESOPs?

A. We can do all types of corporate formations, except ESOPs.

Q. Does the client need to pay 50% of the fee upfront?

A. We ask clients to pay 50% of our fee upon completion of the tax work once we determine the actual amount of their R&D Tax work. The remaining 50% is due when the client receives its refund check/credit acknowledgment from the IRS.

Q. What do we do if the company changes its corporate structure?

A. Our CPAs will handle this.

Q. Will the client owe monies to the state?

A. Possibly. The R&D tax credits creates additional income. When your income changes, the state wants their share. TSP handles state tax docs too as part of the process.

Q. Will the client receive checks or credits?

A. Each client situation is different. It depends upon what works best for each individual circumstance. TSP will make recommendations for the client when we complete the work.

When clients are eligible and elect to receive cash refunds, it's important to note that they will receive a separate check for each year amended rather than one large ACH deposit or one big check.

MISCELLANEOUS INFORMATION

» Some clients have been extended credit to cover the fee while waiting for the return. The income tax paperwork serves as proof of return.

» Can tax credits be used for personal and busines taxes? The entity generates the tax credit and is the recipient of the credit.

Think of the K-1 as a 1099.

Owners may be responsible for some of the credit on their personal tax refund. For example: a dental practice generates $100,000 in tax credits. So, the K-1 is amended. The owner pays taxes on that on paper. The net refund from the IRS is $75,000. The taxes are paid on the net receipts not the gross credits.

» Prior to COVID-19, the IRS was not organized and caught up. The pandemic has only exasperated their problems and delays. It's important to prepare clients for the wait. There is no amount of prodding that will make the IRS move faster.