

The R&D tax credit incentivizes certain research activities by reducing a company's aggregate cost on that research. The credit is equal to a certain percentage of a business's qualified research expense over a base amount. Expenses that qualify are more comprehensive than you may think and can include the salaries of employees and supervisors conducting research, supplies, and even some of the research contracted out.

Regardless of your business's size, revenue, or industry, the IRS's Four-Part Test can help you determine whether your work meets the R&D tax credit eligibility.

1. The first part of this test is to determine if a new or improved business component, meaning a product or process, has or will be developed.
  - You must create a new product, process technique, formula, invention, patent, or software, or improve an existing one.
  - You must improve performance, functionality, quality, reliability, or cost.
2. The second part of this test is that the improvement must be technological in nature.
  - The process of experimentation must rely on the hard sciences such as engineering, physics, chemistry, biology, or computer science.
3. Third, there must be elimination of uncertainty.
  - You must demonstrate that you've attempted to eliminate uncertainty around developing or improving a product or process such as establishing a method, capability, or appropriate design of the business component.
4. Finally, there must be a process of experimentation.
  - You must demonstrate – through modeling, simulation, systematic trial and error, or other methods – that you've evaluated alternatives for achieving the desired result.

Eligibility requirements are clearly defined by the IRS and state governments that offer R&D tax credits. Any company considering utilizing the R&D tax credit should be prepared to identify, document, and support its qualifying activities.

We recommend that business owners partner with an outside expert to manage the nuts and bolts of an R&D tax credit study for their business. An R&D tax credit survey from a professional R&D tax expert will help you determine which of your business activities qualify and guide you through the documentation needed for eligibility.

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