

How Much Does An R&D Study Cost?



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-Warren Buffett*

HOW MUCH DOES AN R&D STUDY COST?

A question that always comes up when we meet with a prospective client is How Much Does An R&D Study Cost? Well, like most consulting engagements and tax work, it depends. Let's look at some of the variables that will impact the costs of generating and monetizing an R&D tax credit.

Documenting and securing an R&D credit is much like other consulting engagements, whether they are a compilation or review of your financial statements or the implementation of six sigma for process improvement, they are based on the hours it will take your team of consultants to complete the engagement. Some consultants will estimate the time needed and bid a fixed fee price to complete the work. Other specialists will want to understand how much of a tax credit they can generate before they will provide a price. So what variables enter into the cost to the consultant and ultimately your fee? Your engagement may include audit defense, travel costs, a license for online documentation and quarterly support. Each of these components will impact both the quality of your R&D study and the annual fee.

Let's look into the details and pros and cons of each variable to understand their importance to the process.

Number of Projects – The largest single component to the cost of a research tax credit study is the time it will take to document and qualify each of the projects the company has undertaken during the tax year. If a company has only a few projects, it will require less interviews and require less time on the part of the consultant(s). If there are a lot of projects, the cost will rise in relation to number of projects and time it will take to properly document them. **This base cost can range anywhere from \$7,500 to \$50,000** depending on the number of projects, their complexity (internal use software projects require substantially more time than other projects to document), the number of people involved and other tax issues. Mid-market companies with revenues that are in excess of \$250M may see higher fees depending on size, locations, etc.

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Audit Defense – This is typically the largest add-on cost to the R&D study (next to the base cost to complete the work). Some consulting firms will add a significant addition to the fee but provide “free audit defense” through the appellate level of the IRS. The benefit is that you are covered in the event of an audit and this is a significant selling point. The downside is that in many cases, you are essentially paying for the cost of that support 80%-100% upfront and may never get audited. The other negative is that you are locking yourself into using that firm in the event of an audit regardless of your comfort with their work at the end of the study. Note: Under Circular 230, firms may no longer charge a fee based upon the percentage of savings for an R&D study. Some consultants will quote their fee at “standard hourly rates” up to a percentage of the credits generated. While this may circumvent the goal of Circular 230, the end result is you are paying a substantial percentage of your R&D credit, typically in the 30% range. **Depending on the engagement, this additional cost can add anywhere from 15% to 100% additional cost.**

Travel Costs – Most consulting firms completing R&D studies do so nationally and do not have technical people onsite. In my experience, most firms have a sales person who travels extensively and once the sale is complete, will turn over the new client to a technical team based out of a corporate office. Clearly, there should be no travel costs included in the fees in this structure. Other firms will provide onsite support during the engagement, bringing technical expertise to the client’s office to interview company executives and employees. Depending upon the location of the technical team, travel costs may be built into the fee or may be separately stated. The pros for having a team come to you are that you can develop a stronger relationship with the consulting firm and have more interaction, resulting in a better exchange of information. The cons are that the team will impact your daily routines for a short time. Having a team onsite may be a question of the size of your R&D credit. If your credit is not significant, meaning less than \$30,000 to \$40,000 per year, it may not be worth the additional travel cost. However, if you have a significant credit that exceeds \$50,000 per year, it might be worth having a consultant onsite to gather all relevant information. **Travel fees can**

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add an additional **\$500 to \$5,000** depending on the size of the company and engagement and length of time to be onsite. I would strongly recommend that these costs be capped and separately stated.

Documentation – There are as many ways to document the R&D tax credit as there are companies taking the R&D credit. Where the credit is significant or the number of annual projects is substantial, many companies turn to online documentation systems to track and document their efforts. These systems range in price dramatically from **as little as \$50 per user per month to \$5,000 or more**. Some firms charge a base fee for a number of users while others charge based on each user added to the system. Conversely, a firm with an internal job cost system may choose to use their internal systems to track time and effort. Another alternative is a more manual system using Excel templates to track time and effort. From a documentation standpoint, systems that are online and “lock out” the user from entering information weeks after the fact provide the best defense for a potential audit. These systems tend to be the most expensive but provide the data typically

requested during an IRS audit (and as a result, reduce substantially the potential cost of an audit later). Other systems mentioned above provide less reliable data but should be implemented to create contemporaneous documentation.

Quarterly Reviews – A few consultants provide quarterly support typically around the implementation of an online system. This support can be charged as a flat quarterly fee or an hourly fee but is designed to make sure information going into the system will provide the best support in the event of an audit. Most consulting firms are not providing this support and prefer to simply complete the annual study. The pros for completing the quarterly review are more immediate review and potential identification of tax issues related to R&D credits and qualifying of projects throughout the year so the year end process is easier. The cons include having to make sure data and input is completed timely so it can be reviewed. While this may seem like a negative, it results in the type of data what will be required under audit. **Quarterly reviews range between \$1,000 per quarter to as much as \$3,000 per quarter.**



Who We Are:

An experienced team dedicated to growing your business.

Acena Consulting is a multi-dimensional tax and accounting services company servicing both public and privately-held companies. Our experienced team of tax professionals includes former “Big Four” national office partners, attorneys, CPAs, engineers and other knowledgeable tax professionals.

While our roots all stem from the major national accounting firms, our approach to working with our clients is more hands-on, conservative and technically-driven. Our goal is pretty simple, we want to help our clients reduce their taxes and operating expenses in order to increase cash flow and overall business growth.

Whether you are curious about federal research and development tax credits, or some export incentives such as the IC-DISC, we can help you break it all down. We work diligently to help you understand, document and monetize these opportunities and other tax incentives for your business.

Have A Question?

Our consultants are here and ready to answer any of your tax questions. We really do love this stuff and we are eager to help you understand the complex tax world we live in.

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