



# KBKG TAX INSIGHT: CASH IS STILL KING – R&D CREDIT PROVIDES BUSINESSES MUCH NEEDED CASHFLOW

The importance of cash to a business cannot be overstated.

At the end of March, the U.S. government passed the [Coronavirus Aid, Relief, and Economic Securities \(“CARES”\) Act](#) to provide financial and emergency relief to American businesses, the American people, and the U.S. economy in whole. The objective of the stimulus package for businesses was to provide a lifeline of cash and liquidity that would assist in carrying these businesses through the next few weeks and months where much of the country is sheltering-in-place, and economic activity has screeched to a halt. As a consultant in the tax and accounting space, one of KBKG’s primary objectives is to assist taxpayers in lowering effective tax rates and securing credits, which creates much needed cashflow for taxpayers of all sizes. One of the more lucrative options for accomplishing this

## KBKG SERVICES

- Research & Development Tax Credit
- Cost Segregation
- Repair vs. Capitalization Review
- Fixed Asset Review
- 45L Credits for Energy Efficient Residential Developments
- 179D Incentive for Energy Efficient Commercial Buildings
- Transfer Pricing
- IC-DISC



objective is the [research and development tax credit](#).

The R&D credit provides taxpayers with a dollar-for-dollar reduction in their tax liability. The credit is both a federal and [state incentive](#). When combined, the federal and state benefit can be up to \$.15 of every dollar spent on qualifying research. The statute of limitations for securing the credit is generally three years from a federal perspective and four years for many states. Taxpayers that have been performing qualified research but did not secure the credits on previous tax returns are excited to learn of its existence and what it can mean to their business. This has become exceedingly important in 2020. Engaging in a research and development tax credit study that includes multiple years (e.g. tax years 2017, 2018, and 2019) can result in a refund of overpaid taxes and ***an influx of much needed cash to a business***. While the CARES act provides avenues for securing loans from the government that can potentially be forgiven, the R&D credit is a permanent influx of capital now, and it can be secured well after the nation recovers from this pandemic.

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In situations where a taxpayer's research credit exceeds their tax liability, the federal statute allows for taxpayers to carry credits back one year and then can carry the credits forward for up to 20 years. Credits originating in an open tax year can potentially be taken back into a closed tax year when following the back one, forward 20 rule.

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## LEVERAGE THE PAYROLL TAX CREDIT

The research and development tax credit can also be used against [payroll taxes](#). Qualified small businesses, defined as having less than five years' worth of revenue and less than \$5 million dollars in revenue for the year the election is made, can use up to \$250,000 in federal research credits as an offset to the social security portion of the FICA payroll taxes. The election must be made on a timely filed tax return, including extension,

and is effective the quarter after the tax return is filed.

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The CARES Act contains a payroll tax deferral component where the payment of payroll taxes incurred between March 27, 2020, and December 31, 2020, will be considered timely paid if 50% of the incurred amounts are paid by December 31, 2021. The remaining 50% is paid by December 31, 2022. However, many taxpayers that qualify for the payroll portion of the research and development tax credit may prefer to use the credit as an offset of the tax for a couple of reasons. While a deferral is essentially an interest free loan, the amount incurred will still need to be paid versus permanently forgiven. Additionally, due to the criteria for qualification surrounding the payroll tax credit, taxpayers that fail to recognize the incentive this year may not qualify for it in future years due to either having revenue for more than five years or exceeding the \$5 million threshold for revenue.

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The research credit has historically been an incentive geared towards driving innovation and reinvesting in the country. The majority of qualified research expenses come from the wages paid to employees. Fundamentally, the objective of the research and development tax credit accomplishes much of what the CARES act attempts to do: provide a means for business continuity and growth.

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***Wondering if the research credit applies to your trade or business? Learn more about [KBKG's R&D tax credit services](#) and/or [contact our R&D specialists](#) to see if you qualify for the R&D tax credit. Start-ups and small business.***

*A free preliminary analysis can give you an idea of how the R&D Tax Credit can benefit your company. [Contact us today.](#)*