



R&D Income Tax Credit FAQs

In any given week, the team at **Prime Tax Group (PTG)** participates in conversations with **business owners, company executives, accounting firms, and tax examiners** at both the **State and Federal** level regarding **Section 41 R&D Income Tax Credits**.

The **Federal Government** reports that over **\$10 billion** in **R&D Income Tax Credits** are claimed every year, and projects that over **\$4 billion** goes **unclaimed**.

We make **thousands of phone calls** each year to **businesses eligible** for **Section 41 Credits**.

Here are a few of the many **misperceptions** regarding **Section 41 R&D Income Tax Credits**, who does and doesn't qualify, and what is necessary to **rightfully claim** these tax credits:

1. **Never Heard of It. Sounds Like a Scam.** Section 41 was added to the IRC in 1981 as an incentive for companies to hire American workers, and American subcontractors. These types of expenditures (wages and contractor fees) plus certain supplies utilized in the R&D process create a base of Qualifying Research Expenditures, which entitle the taxpayer to a tax credit. This credit may be utilized to seek refunds for past corporate taxes paid, or in the alternative, utilize the credits to offset current tax payments that will come due. The R&D section was made a permanent section of the Internal Revenue Code in 2015. Absolutely legitimate. But you must claim your credits timely, or they disappear forever.
2. **Why Hasn't My Accounting Firm Brought This to Our Attention?** We don't know the specific answer or answers to that question related to your CPA firm. However, with over forty years of collaborating with clients and their accounting firms, we've learned a few things:
 - a. **First, It Is Not Unusual:** Every single new client that engages PTG already has an accounting firm that **did not raise** the possibility of qualifying for legitimate R&D Income Tax Credits. Does that make the accounting firm grossly incompetent? It does not. If you're not paying your accounting firm for these specific services, it is completely unreasonable to expect these services.
 - b. **Historical Focus:** CPAs are generally focused on history, not the future: A business provides their accounting firm with the historical operational data after closing the books on the previous year's operation. By practice, the focus of most accounting firms is proper and adequate compliance with the current tax code for reporting historic data.
 - c. **No Visibility:** The accounting firm does not know the detailed, day-to-day operation of your business activities, nor do they have visibility into what each employee does

every single day. Without this knowledge, they cannot possibly know if your company qualifies for R&D Income Tax Credits.

- d. **No Commercial Relationship Insight:** The accounting firm normally does not examine your contracts with customers or with subcontractors to determine if your business qualifies for R&D Income Tax Credits. Without this intimate knowledge of your commercial relationships, they could not possibly know if you qualify for R&D Income Tax Credits.
 - e. **Accounting Software is About Compliance, Not Strategy:** We are decades removed from accountants keeping a physical double-entry bookkeeping system. Accountants are dependent on software that properly creates compliant tax filings. There are no current software offerings in service today that can address and then analyze the seven (7) requirements for legitimately claiming R&D Income Tax Credits.
 - f. **Accountants Are Risk Averse, Specifically to Client Disapproval or the Specter of an Audit at the State or Federal Level.** They believe, and sometimes rightfully so, that if a return is audited, the client will blame the accounting firm for the time and expenses in responding to an examination. In truth, if actions taken by the taxpayer are legitimately authorized by the tax law, an audit—while an inconvenience—only verifies that the taxpayer was entitled to the benefit claimed. PTG seldom delivers less than \$30,000 tax credits. So, the risk of not claiming legitimate tax credits quickly runs to six digits in a few years. Most CEOs consider the small percentage risk of an audit worth taking, given the substantial benefits.
 - g. **Qualifying a Company for R&D Income Tax Credits is Complicated:** If your accountant looked at Section 41 R&D Income Tax Credits in the IRC, and reviewed the many bulletins and tax court case rulings both for and against the taxpayer, they could reasonably conclude that the staff and expertise to qualify—and, if necessary, defend—a client for R&D Income Tax Credits is clearly outside of the normal daily scope of work their accounting firm renders. We would never expect a general practitioner in medicine to perform cardiac or brain surgery, as we all know that requires special training and facilities not available at the local doctor's office. And yet somehow, businesses expect their CPA to be competent in all matters related to the tax law. Totally unrealistic expectations.
3. **My Accounting Firm Said Our Business Activities Do Not Qualify.** 97% of CPAs probably give good advice, and then there is the 3%! Sometimes qualifying a client for certain federal or state incentives is outside of their strong suit, and frequently this is the case with R&D Income Tax Credit qualification. Without addressing the potential an accounting firm has for malpractice issues for giving inaccurate advice, either by omission or commission, we recommend a second opinion from a knowledgeable, experienced expert may pay big dividends.

4. **I Have Heard of It, but I Think It Is Only for Large Corporations Inventing Things or Big Pharma.** Wrong. Even a small engineering firm or a six-person manufacturing entity has potential to legitimately qualify for tax credits and refunds.
5. **We Are Currently Sitting on a NOL Carryforward. How Can a Tax Credit Help a Company Paying No Corporate Tax?** Depending on the annual income of your company, if you have employees and pay the employer's portion of FICA, the credit can offset your future obligations. Stop writing checks when credits will offset. NOL or break-even operations can still utilize the credits.
6. **We Are Not Making New Products, Software, Electric Cars or Pharmaceuticals. So I Don't Think We Do Qualified Research and Development.** Understood. However, if your expenditures and your activities meet the four-part test for innovation of process or products, as well as the additional three requirements for commercial operations, you potentially qualify.
7. **We Currently Take Deductions for R&D Activities and Supplies. We Cannot Qualify for a Credit if We Take Deductions.** Wrong. While there are required calculations and adjustments to Section 174 expenses to avoid a "double dip" benefit, Section 41 Credits provide a full dollar of tax savings for every credit earned, guaranteed by the full faith and credit of the U.S. Government to offset past, present, and future tax obligations dollar for dollar.
8. **Our Activities Are "Routine" Business Activities Common to Our Industry. We Don't See How That Qualifies?** Please don't take offense, but the fact that you do not see how your entity may qualify is no reason to not explore if you do or do not qualify. Knowledge in a given field of endeavor is not a substitute for specific knowledge in another field of endeavor. The intent of this legislation, that is the established tax law, is to reward American businesses that pay U.S. wages and subcontractors to create new products or processes.
9. **Qualification for R&D Income Tax Credits for Our Business Sounds Too Good to Be True!** Fortunately, qualifying for and the calculation of qualified research activities is not a gray area of "maybe so, maybe not." Your activities must meet the requirements of the "four-part test," and your contracts for services with your customers must meet a certain standard, and you must have normal business records to support your claim. Either you qualify or you do not qualify. No wobble. No insecurity. No confusion. If your business operations do not meet all seven requirements, PTG will not prepare a claim for R&D Income Tax Credits.
10. **My Accountant Tells Me That Qualifying for Section 41 Income Tax Credits Is a Very Laborious Process, Requiring Personal and Staff Time plus Outside Professional Experts, and We May Not Receive That Much Benefit to Make It Worth the Trouble.** Your accountant may be right, but the PTG approach to qualification is to provide an obligation—free assessment to determine:
 - a. if you can qualify, and

b. the likely benefit of qualification in net dollars to your balance sheet. This allows your company leadership to make an informed decision without creating a burden on staff or an obligation before you know the facts.

11. How Do We Know Our Fees for This Service Will Not Exceed Our Actual Benefit?

We've Heard a Few Horror Stories in Our Trade Association About Tax Credit Professionals Charging More Than the Actual Benefit Realized. While we cannot speak for our competitors, our engagement agreement caps our fees at a percentage of your actual benefit, regardless of PTG's time to prepare and substantiate the credit claim, and, if necessary, defend the claim in examination. It is impossible, in our case, to get upside down on fees.

12. We Understand This Is an "Audit" Trigger with the IRS. We Don't Want to Spend Money or Time to Respond to an Audit. Clearly a "peace of mind" concern. Qualifying for and claiming R&D Income Tax Credits is a legitimate benefit authored by Congress as an incentive to encourage American companies to hire American workers and American subcontractors to create new processes and/or products rather than sending those dollars offshore. It is as legitimate as claiming children as exemptions on your personal tax return. To be sure, every claim for Section 41 R&D Income Tax Credits is reviewed when your company submits your claim, and it is possible that a small percentage of claims will be randomly chosen for a "deeper dive" review or audit to determine if your company truly qualifies. **The good news is all clients of PTG are represented at audit by PTG's tax attorney should your account be examined, and there is no additional charge for this service from PTG.**

13. Can You Give Us a Range of the Potential Benefit? It's impossible to predict without a cursory assessment of your specific situation. However, in 2024, our clients received between \$30,000 and \$2,600,000 in tax credits. As you can see, the potential range is significant, and every client's outcome is unique—determined by the scope and nature of their qualified activities.

14. How Involved Is the Process? Our People Are Already Too Busy with Their Corporate Responsibilities to Take Weeks of Their Time to Go Through This Qualification Process. PTG does all the heavy lifting, and the reward ratio for participating is typically over \$4000 or more per employee hour spent collaborating with PTG in realized benefit received by your company. The PTG qualification process is typically done in three steps to avoid interrupting the client's normal business activities:

- 1. Assessment:** This will require approximately 30 to 90 minutes of the businesses most knowledgeable person(s) speaking with our team members and tax attorney, and providing some basic documentation for review.
- 2. Calculation:** If we jointly determine that the potential benefit justifies the time investment, your company will be asked to upload certain confidential documents to our secure archive. In addition, our tax compliance team will request brief phone interviews—approximately 20 minutes each—with your key project managers,

covering a representative sample of projects from the study years. We aim to limit your team's total time commitment for this phase to approximately three to four hours, typically involving three individuals, though additional project managers may be included if needed.

- 3. Compliance and Documentation:** Processing to prepare forms for tax filings and supplemental reports, with delivery and filing instructions for your CFO and accounting firm. We will need access to the CEO or CFO at the final delivery for a fifteen to twenty minute call to clarify the next steps. After an initial study, the annual follow-up studies typically take less than a collective total of two to three hours of the CEO, CFO, and Project Manager's time.

- 15. In Our Case, Cash Flow Is Going to Be an Issue. If It Takes Three to Six Months to Get Our Refund, We Are Going to Be Out of Pocket to Pay Your Firm's Fee for Services.** That's a valid concern—and one we take seriously. At PTG, we structure our engagements to protect your cash flow by deferring payment obligations until you've realized the financial benefit of the credits, either through a refund or by offsetting current tax liabilities. Our approach ensures that the timing of our fee aligns with your receipt of value, minimizing any disruption to your working capital.

- 16. Can You Give Us Some Referrals?** PTG operates under strict confidentiality agreements with all clients, which include covenants prohibiting us from disclosing client names, discussing their business, or requesting referrals. Every member of our team is also contractually bound by these terms. For over forty years, we have maintained a firm policy of never sharing client information with third parties.

The value we deliver often creates a strategic financial advantage—particularly in competitive bidding, securing credit lines, or attracting top talent. For example, if your team knows a particular project qualifies for a \$25K credit, you could underbid a competitor by \$10K and still come out ahead. Or, if you're looking to hire in a tight labor market, knowing that a new engineering role generates \$12K in credits allows you to offer a more competitive salary while still reducing your net cost for the hire.

A Bit of History

During the 1970s, the U.S. was heading into a deep recession, with record-high interest rates and inflation. For the preceding two decades, many of America's largest corporations (GM, Boeing, Westinghouse, etc) were offshoring research and development activities (R&D) to low-wage countries.

To incentivize American companies to bring this work back home and hire U.S. workers, the Economic Recovery Tax Act (ERTA) incentivized paying U.S. employees and hiring U.S. subcontractors to work on new products, solutions, and/or products by awarding tax credits.

Fast forward 43 years, and there remains strong conviction that supporting domestic innovation is sound policy. Wages stay here. Intellectual property stays here.

R&D Income Tax Credits are not “gifts.” They are a “found money” reward for using the hard sciences to create designs, consider alternatives, test, and remove uncertainty as to outcomes in new products, solutions, and processes by paying U.S. workers and/or hiring U.S. subcontractors.

PTG News Updates

- **44-Year Anniversary of Hiring Americans to Drive Innovation**

Section 41 R&D Income Tax Credit Incentives are now in their 44th year of rewarding American businesses for hiring U.S. workers and subcontracting with domestic service providers. Originally introduced through the Economic Recovery Tax Act (ERTA) of 1981, this enduring policy continues to support innovation, reduce corporate tax burdens, and strengthen the domestic workforce.

- **\$10 Billion in R&D Income Tax Credits Distributed in One Year to Small and Large Businesses that Claimed the Credits. Estimated \$4 Billion Unclaimed.**

According to independent watchdog organizations, the U.S. government awarded over \$10 billion in R&D Income Tax Credits in 2021 to businesses ranging from startups to billion-dollar corporations. It's estimated that over \$4 billion went unclaimed. Did your company qualify—but miss out?

- **Use R&D Credits to Offset Employer OASDI Taxes**

The Protecting Americans from Tax Hikes (PATH) Act of 2015 increased the cap on using R&D Tax Credits to offset the employer's share of Social Security (OASDI) taxes from \$250,000 to \$500,000. Even businesses with net operating losses (NOLs) may

qualify to apply credits against payroll tax obligations. Tired of writing FICA contribution checks? Let's talk.

- **Big Changes in Alternative Minimum Tax (AMT) Impact Small Businesses and Pass-Through Entities**

The Protecting Americans from Tax Hikes (PATH) Act of 2015 expanded the usability of R&D Income Tax Credits by allowing qualified taxpayers to apply them against Alternative Minimum Tax (AMT) obligations. This was a major shift, especially for small businesses previously limited by AMT liability.

Further changes came with the Tax Cuts and Jobs Act (TCJA) of 2017, which eliminated the AMT at the corporate level. For pass-through entities, the TCJA also permits shareholders to use R&D Tax Credits to offset their personal AMT liability. These reforms significantly increased the value of R&D credits for both small and closely held businesses.

- **Amortization Repealed: Immediate Expensing for R&D Is Back**

The recently enacted Federal Funding Bill officially repeals the amortization requirement for R&D expenses under IRC §174. This major legislative change allows businesses to once again fully deduct qualified U.S.-based R&D expenses—such as wages, salaries, supplies, and consultant fees the year they are incurred. The change reverses the restrictive five-year amortization policy (15 years for foreign research) that had hampered innovation and strained cash flow for businesses nationwide. Immediate expensing translates into faster refunds, greater tax savings, and enhanced reinvestment opportunities for growing companies. This update is a significant win for businesses of all sizes and industries pursuing innovation. To take advantage of this new provision, many companies will likely need to amend prior-year returns. PTG is fully equipped to guide you through this process—but timely action is critical.

Let's Explore Your Eligibility

To initiate a **no-obligation assessment** of your company's potential to claim Section 41 R&D Income Tax Credits, contact Senior Tax Strategist **Angela Torres** at **angela.torres@primetaxgroup.com**. We look forward to learning more about your operations and helping determine whether your business qualifies for valuable R&D tax incentives.