

## The Credit for Increasing Research Activities

### Qualifying criteria for Research and Experimentation Tests (according to IRC §41):

- Elimination of Technical Uncertainty (information available does not establish capability, methodology, or appropriate product design)
- Technological in nature (satisfied if reliance is on computer science, physical science, biological science and/or engineering – no economics/business science)
- Substantially all activities must rely on a Process of Experimentation (trial and error, success or failure, hypothesis, consideration of alternatives)
- Constitute a Permitted Purpose (improved performance, reliability, quality, significant cost reduction)

### Disqualifying criteria for Research and Experimentation Tests (according to IRC §41):

- Adaptation, Duplication or Reverse Engineering of existing business components
- Research after the point of Commercial Production
- Research conducted outside the United States
- Research conducted in social sciences, arts, or humanities
- Routine data collection, routine or ordinary testing or inspection for quality control
- Market research, efficiency surveys, or activities related to management function or technique, advertising or promotions
- The acquisition of another's patent, model, production or process
- Research in connection with literary, historical, or similar projects
- Special rules for internal use software development
- Funded research by grant, contract or otherwise by another person or agency

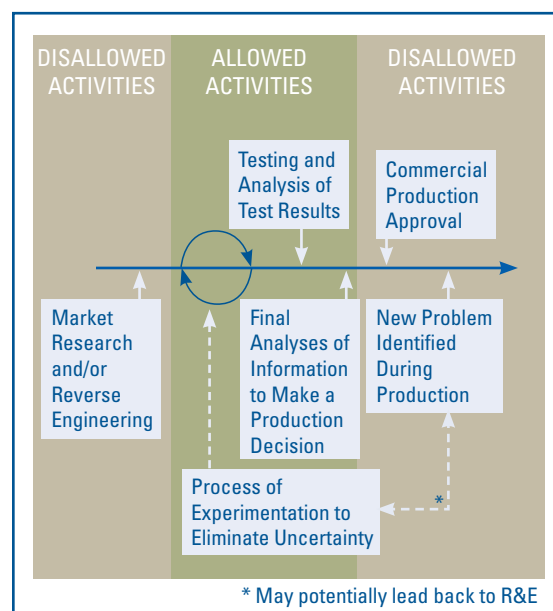
### Allowable research expenses under IRC §174 must be:

- Incident to the development or improvement of a product
- Experimental or laboratory sense, i.e., activities intended to discover information that would eliminate uncertainty concerning the development or improvement of a "product"
- "Product" includes any pilot model, process, formula, invention, technique, patent, or similar property (Patent = safe harbor)
- Hands-on research, direct support and direct supervision activities allowed

### Allowable research expenses under IRC §174 must be:

- Old rules (T.D. 8930) required discovery of information that was "never before available" effective prior to Jan 1, 04
- New Rules (T.D. 9104 (Dec 31, 03)) significantly altered discovery test "does not require the taxpayer be seeking to obtain information that exceeds, expands or refines the common knowledge of skilled professionals in the particular field of science or engineering in which the taxpayer is performing the research"

### THE TYPICAL DEVELOPMENT PROCESS



### CREDIT CLAIM—A 3 STEP PROCESS

