

It's time to claim your research and development (R&D) tax credits

Get the credit you deserve with audit-proof documentation





Introduction

Innovation required

Driving innovation is critical to just about every business today – and it’s not just for tech companies. Any industry that makes incremental improvements to products and processes based on expert research and insight actively engages in research and development (R&D). Nevertheless, hiring trained, skilled researchers and supporting them with the time, information and supplies they need can really add up. That’s why it’s an exciting development that recent legislation worldwide has expanded tax credits and advantages for qualified R&D expenditures.

A global snapshot

Companies in more than 40 countries, including the United States, Canada, the United Kingdom, Australia, and many others, can take tax credits, super deductions, allowances, cash grants and credits for R&D expenditures.

The current US R&D tax credit is a dollar-for-dollar credit against owed or paid federal income taxes. From an IRS tax standpoint, nearly 10 percent of a company’s eligible costs can be applied directly against their federal income tax liability. It even works retroactively. If the company doesn’t pay taxes now, the credits it documents appropriately can be applied to future tax liabilities. On top of this, companies that are involved in R&D can also use these tax credits to increase the return on investment (ROI) they realize for their R&D expenses and increase their market value.

In Canada, where federal and provincial corporate statutory tax rates range from 17.5 to 31 percent, companies can receive a tax credit of 20 percent of their expenses related to R&D. Small, private Canadian corporations can get 35 percent credit on the first CAD \$3 million in R&D expenses. Credits can be carried ahead for 20 years and back for three.

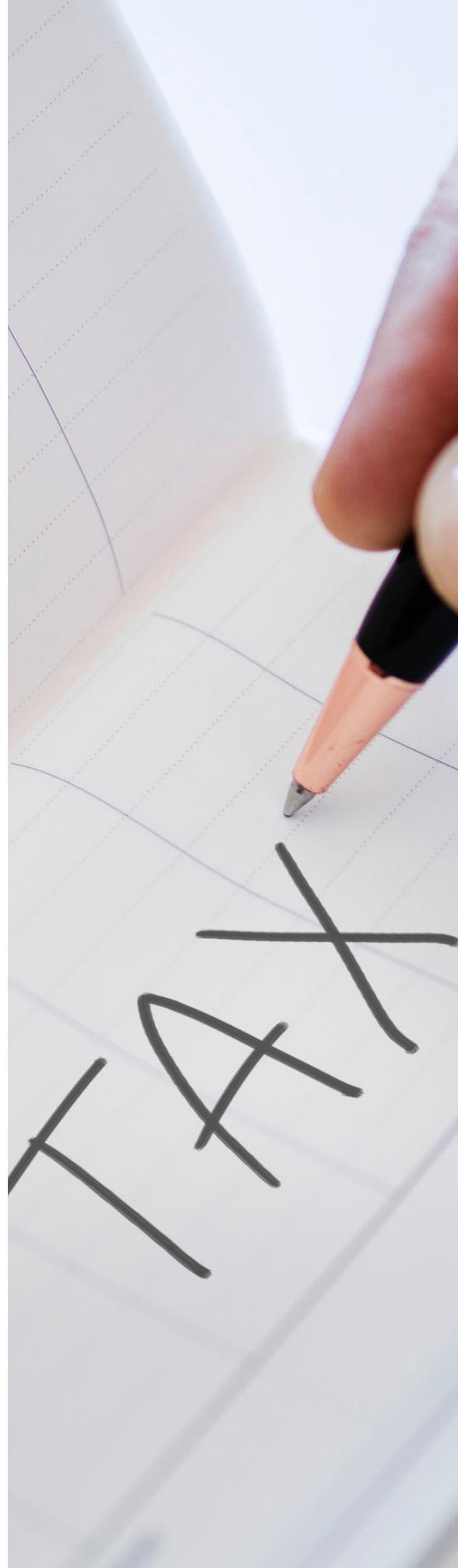
Corporate income in the UK is taxed at a statutory rate of as much as 23 percent. But now the government offers a refundable tax credit of 9.1 percent of all qualifying R&D expenses. It also allows for 100 percent tax depreciation of expenditures on assets used for R&D during the year they were acquired.

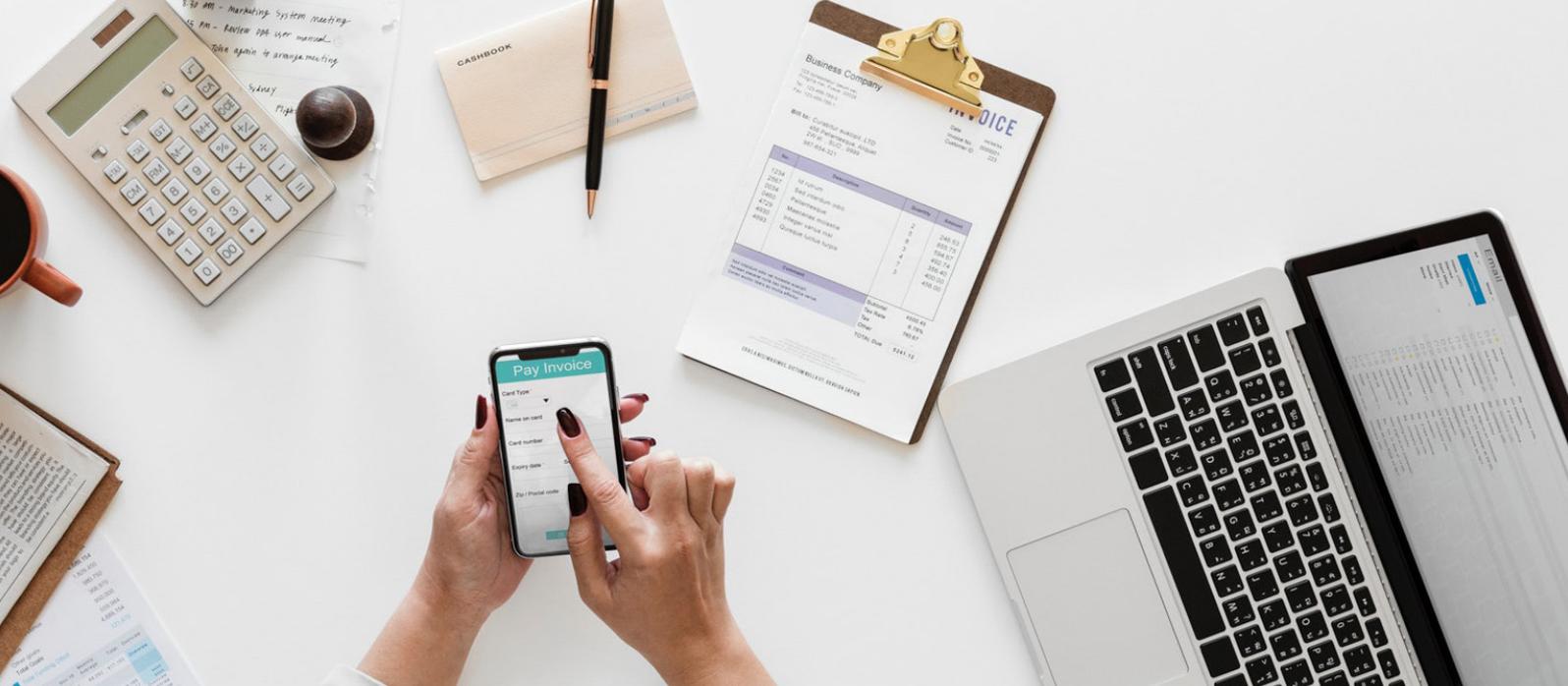
In Australia, for companies with an aggregated annual turnover of below \$20 million, the refundable R&D tax offset will now be a premium of 13.5 percent above the applicant's company tax rate. From 1 July 2018, for most taxpayers, with a turnover of less than \$20 million, the corporate tax rate will be 27.5 percent and the refundable R&D tax offset rate will therefore become 41 percent. This is a decrease of 2.5 percent compared to the current refundable R&D tax offset rate for that applicant. Worldwide, governments have significantly expanded permanent tax credits based on corporate revenues and spending on R&D. The potential for companies to reclaim can be in the millions.

So, how do I get my share?

Getting this money can be a real challenge. Any expenses you use to apply for R&D tax credits must typically be documented as qualified research expenses (QREs), which are defined as wages, supplies and/or contract research. This includes salaries, a portion of contractor payments, contract research, computer leasing, pay for first-line managers and direct support personnel – among other things.

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Clear and accurate accounting for these expenditures is critical, but you'll need to record them carefully. For example, in the US, as in many other jurisdictions, these expenses must also stand up to a four-part test to make sure they qualify for R&D.

The four requirements are:

1. Permitted purpose – The expense is used to develop or improve a product or process for functionality or performance, quality and reliability, or reduce its cost. It's not permitted if it just improves aesthetics. Process of experimentation – The expense includes the cost of evaluating alternatives, along with testing and modeling and/or simulations to determine outcomes.
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3. Technical uncertainty – The expense is to test a capability or methodology, deals with an uncertainty in development, an improvement to a product or process, and/or, to determine how to reach specific goals.
4. Technological in nature – Finally, the expense must rely on practices based on solid principles from engineering, physical science, computer science or biological science. It can't be based on social, economic, psychological sciences – or guesses – for its methodology or assumptions.

To pass these tests, accounting professionals must document R&D expenses in detail and provide validated tracking on who did the work along with their billable hours. The burden of proof for the tax credit is on the taxpaying company that applies for the rebates. So, you'll need impeccable records that trace each expense back to its R&D purpose and process. Of course, you'll also need a way to repeat this process year after year, so that it becomes a part of your overall business operations – not a painful and troublesome distraction.



The devil in the details

While corporate accounting firms worldwide see these new tax developments for R&D as good for business, they also pose enormous challenges to the corporations and tax experts who work with them. To qualify R&D expenses, the data collected on them must be accurate, complete and completely audit-proof.

At first, it seems inevitable that the process will take a lot of manual effort, but, even that's not enough. Spreadsheets and self-administered timesheets do not provide sufficient evidence of R&D expenditures to qualify for tax credits. Insufficient or even slightly inaccurate backup data exposes your company to audits, and your accountants to questions about their reputation.

To safely navigate the confusing waters of required documentation, companies and their accountants need an accurate, automated, easy-to-implement system that can properly document actual R&D expenses in a way that provides detailed results.

The WiseTime difference

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How WiseTime works

No time for manual documentation? Automate!

WiseTime is the world's first seamless and automatic time tracking software that's designed to provide all the detail you need without the manual work. It effortlessly and meticulously tracks expenses with categories and annotations you need to properly document the work and expense of R&D without interrupting your current workflow.

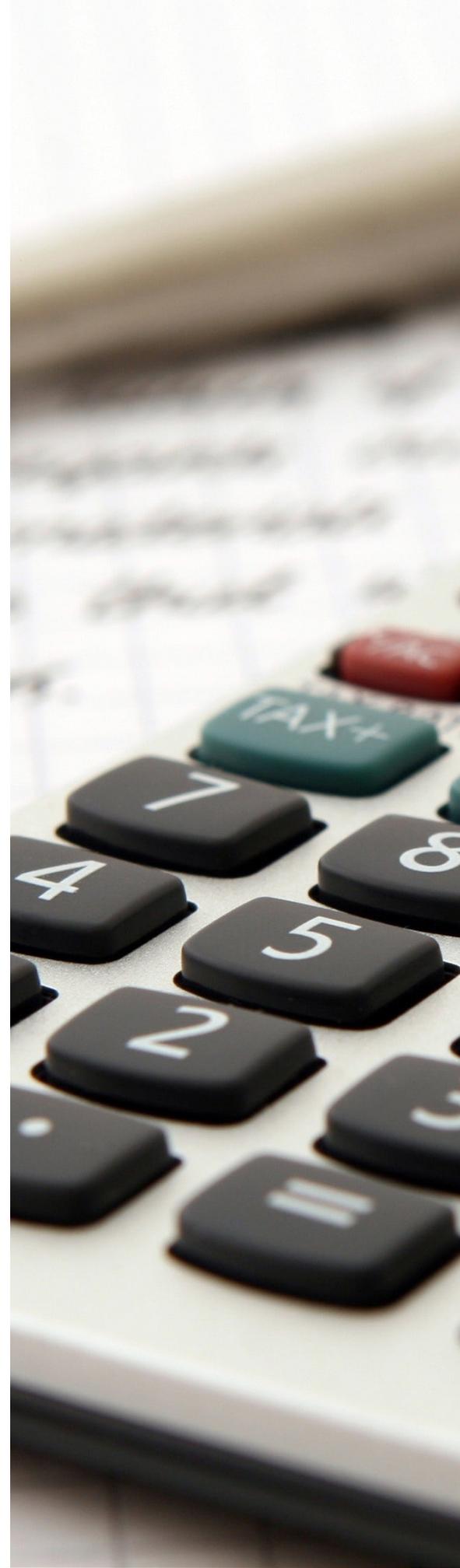
Start quickly. Protect privacy. Eliminate audits.

WiseTime tracks across all leading operating systems, including Windows, macOS and Linux. Installing the software on your desktop is easy, too – just download it and run. As soon as it launches, WiseTime starts documenting time for activities. Users can then view time logs and analytics using the WiseTime Web Console. It works in any enterprise – including those with highly distributed resources and remote employees.

There's no time clock to start or stop, and you will never have to fill out a time sheet again. For example, in Microsoft Word, the software records file names in active windows, while the email subject line is used to title activities in Outlook. WiseTime does this seamlessly and passively across all the programs your team uses, including Excel, Adobe tools, PowerPoint, video conferencing platforms, web browsers and many other applications.

While the software is designed to be transparent and automatic, users always have full control over the privacy of their tasks and activities. For instance, they can select which specific items reflect work activities before submitting data for timesheets, so recorded time for personal tasks

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goes no further than their own desktop. You can delete entries and add time logs manually and categorize them any way you like before they're sent.

Nevertheless, even with this manual level of control, employees and users cannot change the time entries automatically collected by WiseTime, so the time and detail it records is always automatically accurate and audit proof. It provides the right balance of security and privacy for your entire organization.

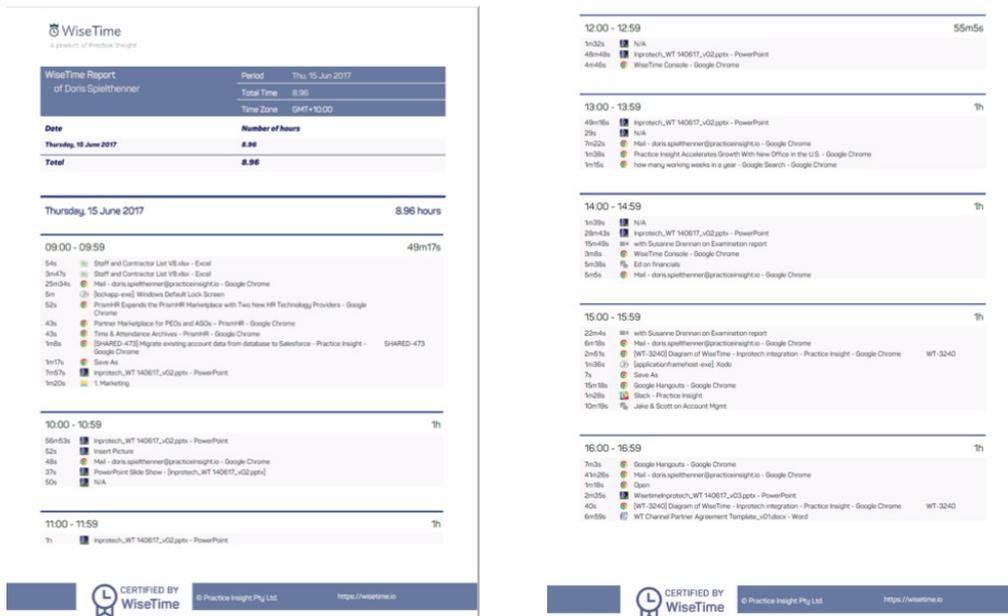
Auto-Tagging for R&D

Users can fine-tune how WiseTime works to provide detailed insights into the time spent on different tasks and projects using tags. Tags can be added manually to describe each recorded activity by business function – such as process improvement, product development or research testing. Or alternatively by project, team or location. Users can also easily configure WiseTime to auto-tag activities when certain keywords are mentioned in material.

For instance, consider an organization is working on three research projects—one for product durability, another for ease of use, and another for testing a more economical production material. The product durability team is in one location, but the teams doing the other research are spread across five different facilities worldwide. Tracking their expenses with WiseTime is as easy as using a two-part keyword system wherever the research takes place. Just include a consistent reference to the location and type of research in the tags. WiseTime will do the rest.

This auto-tagging eliminates the need to manually organize any of these recorded tasks and means that you can categorize and account for expenses with granular detail and complete traceability without significant manual effort—even in complex, real-world situations.

Tagging also means that you can create audit-proof reports based on any tags or combination of tags or keywords you select, for any period you choose. You can output the data in a PDF format and/or as Excel raw data. In short, WiseTime provides all the flexibility you need to create a wide variety of detailed, audit-proof R&D reports automatically – with no changes necessary to the way you work now.



Audit proof reports: WiseTime reports provide maximum detail for maximum R&D credit, protection from compliance/risk issues, and management benefits.

Conclusion

Tax laws have changed for R&D expenses across most of the world. Writing on CFO.com, Dean Zerbe, a former senior counsel to the US Senate Finance Committee, said: “Combined together, these modifications to the R&D tax credit have the potential to pump millions back into the economy and bring tremendous value back to small businesses and startups – the two most important groups when it comes to promoting job creation and economic growth.”

The drive for innovation is moving faster than ever. Don’t let another tax season go by without discovering how WiseTime can automatically help you recoup R&D dollars and build a better business. It’s your cash. Claim it!

**Want to learn more about WiseTime and what it can offer you?
Get in touch for a demo or try it for free today.**

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