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Every year, companies throw away thousands or even hundreds of thousands of dollars because of simple misunderstandings surrounding the research and development (R&D) tax credit. Despite being clarified and made more accessible than ever, many taxpayers believe the credit doesn't apply to them, or that they are otherwise ineligible. This costly mistake has led to the credit being woefully underutilized even as it saves billions for those in the know every year.

The hesitance of companies to utilize this credit is itself nothing new – in fact, it dates back decades to when innovation incentives were first built into the tax code in the 1980s. At that time, the tests, definitions and regulations used for these credits

One of the big points, which changed with recent legislation, is that R&D tax credits aren't only for major, taxable research corporations – they can also apply to startups and small businesses. Under the PATH act, these groups can qualify for $250,000 each year for up to five years – $1.25 million total – in R&D credits to offset the Federal Insurance Contributions Act portion of their payroll taxes, so long as they have less than five years of gross receipts and their annual gross receipts are less than $5 million.

Today, whether a company qualifies for these credits is determined by a four-part test, requiring that:

- The R&D must be tied to the new or improved functionality, performance, reliability or quality of a business component.
- The purpose of the R&D must be aimed at eliminating uncertainty, specifically with regards to the capability of carrying out the development or improvement, along with the design and method of doing so.
- The work must be technological in nature, utilizing technologies and principles based in the hard sciences.
- The activity must use a process of experimentation, generally taken to mean anything from trial and error to a conventional use of the scientific method.

Within these requirements, there are multiple stumbling points that result in many perfectly qualified companies either dropping their pursuit of the credits or never seeking them out in the first place.

A common trip-up for many companies is the point in the requirements mentioning the subject of R&D must be "new or improved." Contrary to all-too-common belief, this isn't asking all qualified companies to invent the wheel. In truth, if a company is developing anything at all that's new or improved – even just internally – it likely fulfills this requirement, so long as the company itself is able to pass the four-part

In the early days of the R&D tax credit, it was understandable that people would shy away due to the complexities piled on the financial and legal risks of claiming the credit. But now, there is simply too much money being walked away from when, with a bit of effort and guidance, this tax break can be enjoyed by so many.

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