



# DOLLARS FOR DESIGN: OPTIMIZING THE R&D TAX CREDIT FOR ARCHITECTURE

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Learning Units: 1.0 LU/RIBA



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MAKE SURE TO SIGN IN TO RECEIVE CREDIT

# COURSE DESCRIPTION

You are paying too much in taxes. In our experience, over 70% of architecture firms are not claiming a very powerful tax incentive – the **Research & Development Tax Credit**. Are you missing out on dollars for design that could give you a competitive advantage?

This course will cover the eligibility requirements and how to leverage available information and technology within time tracking software to easily access this lucrative incentive.

# LEARNING OBJECTIVES

- Understand the four-part test and basic exclusions to R&D, including the main components of funded versus non-funded research
- Debunk the myths of the R&D tax credit
- Learn how to optimize time and project tracking to maximize tax credits
- Identify target-rich environments for R&D activities

# BRADY BRYAN, CEO

- **Education**

- J.D. – *Southwestern Law School*
- BBA, Management –  
*Sam Houston State University*

- **Specialization**

- R&D Tax Credits
- Founder & CEO of BRAYN
- 10 years in O&G prior to law school
- Deloitte alum
- Resides in Valencia, CA with wife, 3 children, and 2 French bulldogs



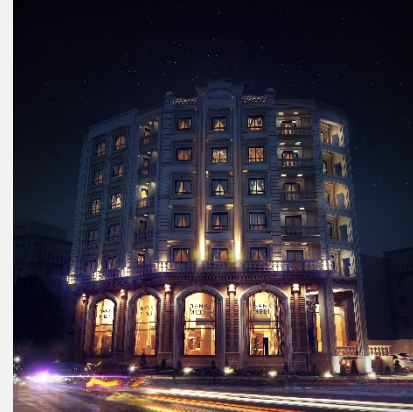
# R&D TAX CREDIT BASICS

- ~ 40-year-old credit is now a permanent part of the tax code
- Broader definition of R&D
- Up to 9% of US – QREs
- ~40 states offer similar incentives



# WHAT WE DO EVERYDAY!

- ✓ New Product or Process
- ✓ Uncertainty
- ✓ Technical in Nature
- ✓ Process of Experimentation



Cleveland Clinic – Las Vegas  
Architect – Frank Gehry



# R&D 4-PART TEST: IN DETAIL

## Business Component for Permitted Purpose:

- New or improved
- Business component: Product, process, technique, formula, invention, or computer software
- Purpose: Functionality, performance, quality, reliability, or durability

## Uncertainty:

- Capability,
- Methodology, or
- Final or appropriate design of the business component

## Technological in Nature:

- Process of experimentation based on engineering, physics, chemistry, biology, or computer science
- Existing principles are OK

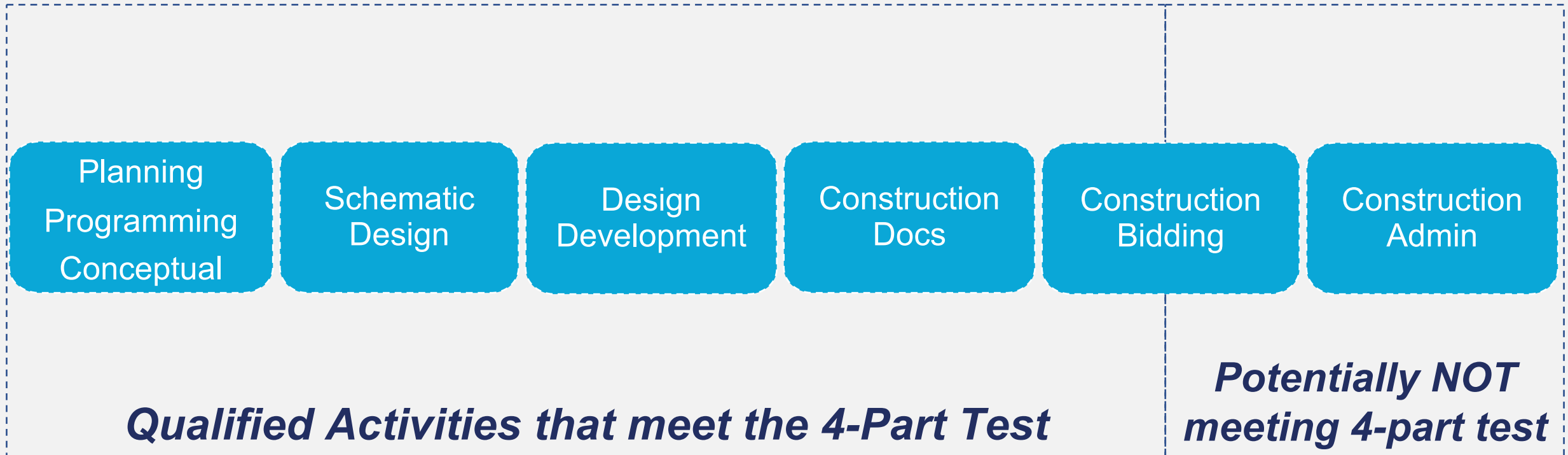
## Process of Experimentation:

- Systematic evaluation of one or more alternatives
- Systematic trial and error process

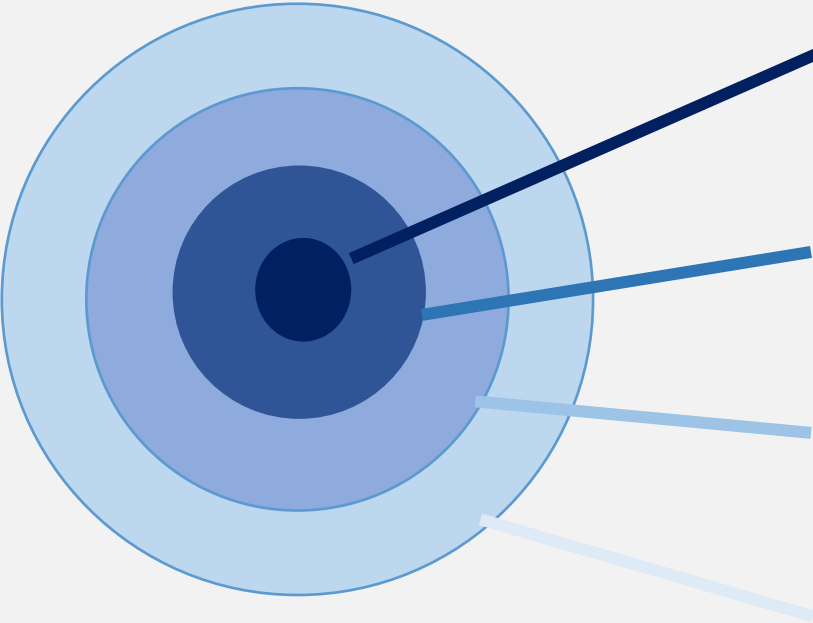
# EXCLUSIONS

- Funded Research
  - R&D performed under Time & Materials or Cost-Basis contracts
  - Fixed fee and lump sum contracts generally not excluded
- R&D outside the United States
- R&D after commercial production has started
- Reverse engineering
- Efficiency surveys or marketing activities
- Aesthetic, cosmetic, or seasonal-type design decisions

# R&D CREDIT IS ACTIVITIES BASED



# QUALIFIED RESEARCH EXPENSES



EMPLOYEES	Total Time spent on R&D Activities											
	R&D Support				Direct R&D Activities				R&D Supervision			
Architects, Engineers, CAD, BIM, Designers												
Partners, Principals, VPs, Dept Heads												
Project Managers, QA Engineers												
Interior Designers, UX Designers												

# R&D FOR ARCHITECTURE AND ENGINEERING

## Example Qualified Activities:

- Building Design
  - Facades
  - Elevations
  - Site orientation
  - Master Plans
- Sub-System Engineering
  - Structural
  - HVAC
  - Site grading
  - Electrical systems
- SD, DD, and CD phases

Item	Average Annual Amount
Gross Revenues	\$ 4,500,000
Total Payroll	\$ 2,500,000
Qualified Research Expenses (QREs)	\$ 900,000
Net Federal Credits	\$ 49,500
Net Texas Credits	\$ 27,500
Total Net Federal and Texas Credits	\$ 77,000

# FUNDING ANALYSIS CASE STUDY

## Facts:

- 50% of time spent on “funded” contract projects
  - T&M
  - T&M with soft cap
  - Billed & paid monthly with no technical inspection
- 50% of time spent on
  - Fixed-fee contract (unfunded) projects
  - Design outside of a contract
  - Internal R&D Projects
- Client uses project & time tracking

## Architecture Case Study

Item	Average Annual Amount
Gross Revenues	\$20,000,000
Total Payroll	\$11,500,000
Qualified Research Expenses (QREs)	\$2,000,000
Total Net Federal Credits	\$125,000

# MYTH: OUR FIRM IS TOO SMALL

PATH Act: R&D Tax Credit for small businesses made  
**PERMANENT!**

Improved Federal utilization starting in tax year 2016 for certain companies:

- **Payroll Tax:** Less than \$5 million in gross receipts in the credit year and no gross receipts for any taxable year preceding the 5-taxable-year period ending with that tax year; can offset up to \$250K in payroll tax



# MYTH: WHAT WE DO DOES NOT QUALIFY

- R&D is no longer just for lab coats
- R&D includes improvements in process and products
- Over 65 industries included

# MYTH: THE PROCESS TO RECEIVE THE CREDIT IS TOO EXHAUSTIVE

- Use a tax specialist to partner with your CPA firm
- Start early – Align work filings with your tax plans
- Get a free initial assessment

# IRS AND TAX CONTROVERSY

## IRS STATUS

- HR and Examiner Levels
- Coordinated Issue & Teams
- R&D Claim Exams

## TYPICAL IDR

- Consultant?
- Contract?
- Time/Project Tracking?

## METHODOLOGIES

- Estimates
- Time and Project Tracking

# CONCLUSIONS/QUESTIONS

- Architects are performing R&D by overcoming uncertainties
- Fixed Fee/Lump Sum = GOOD, T&M = BAD
- R&D tax credit is available to small companies
- Time/project tracking software should be leveraged to substantiate the credit and minimize company burden



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A low-angle, upward-looking perspective of several modern skyscrapers with glass facades. The buildings are set against a bright blue sky with scattered white clouds. A strong sun flare is visible in the upper left corner, casting a warm glow over the scene. A large, blue, rounded rectangular box is overlaid on the right side of the image, containing the text "THANK YOU!" in white, bold, sans-serif capital letters.

THANK  
YOU!





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