The Research and Development Credit Four Part Test

**Permitted Purpose**
- Intended to develop or improve a product or processes
  - Functionality/Performance
  - Quality/Reliability
  - Cost Reduction
- Not Aesthetics

**Process of Experimentation**
- Evaluation of Alternatives
- Prototyping/Testing/Modeling
- Simulation

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**The Four-Part Test**

**Technical Uncertainty**
- Capability or Methodology
  - Uncertainty for developing or improving a product or process
- Can we reach our goal?
- How are we going to reach our goal?

**Technological in Nature**
- Activity must rely on principles of one of the following sciences
  - Engineering
  - Physical sciences
  - Computer sciences
  - Biological sciences
  - Not Social, Economic or Psychological Sciences

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**Qualifying Costs:**
- Wages, Supplies, and Contractor Research
ACTIVITIES THAT MAY QUALIFY FOR R&D TAX CREDIT

Examples of qualifying activities:

- Develop new, improved or more reliable products, processes or formulas
- Develop prototypes and models including computer generated models
- Design tools, jigs molds and dies
- Develop or apply for patents
- Perform certification testing
- Conduct testing of new concepts and technology
- Develop new technology
- Attempt using new materials
- Perform environmental testing
- Add new equipment (implies process improvement, not the cost of the equipment)
- Automate/streamline production process or manufacturing process
- Develop software or hardware
- Improve or build new manufacturing facilities (implies process improvement, not the cost of the facility)

RECORDS TO SUPPORT YOUR R&D TAX CREDIT

Examples of research and development documentation:

- Email communications which show failures, problems, or concerns encountered during the development
- Product or project specifications, descriptions, or proposals
- Technical reports/test reports and results
- Documentation of alternative supplies/materials/technology evaluated
- Project diagrams/drawings/pictures including older versions and conceptual drawings which differ from the final product
- Issue logs/meeting minutes/flowcharts or time schedules/schedules of releases
- Patent applications or abstracts
- Contractual agreements with consultants and customers