



The Research and Development Credit Four Part Test

<p style="text-align: center;">Permitted Purpose</p> <ul style="list-style-type: none"> ➤ Intended to develop or improve a product or processes <ul style="list-style-type: none"> • Functionality/Performance • Quality/Reliability • Cost Reduction ➤ Not Aesthetics 	<p style="text-align: center;">Process of Experimentation</p> <ul style="list-style-type: none"> ➤ Evaluation of Alternatives ➤ Prototyping/Testing/Modeling ➤ Simulation
<p>THE FOUR-PART TEST</p>	
<p style="text-align: center;">Technical Uncertainty</p> <ul style="list-style-type: none"> ➤ Capability or Methodology <ul style="list-style-type: none"> • Uncertainty for developing or • Improving a product or process ➤ Can we reach our goal? ➤ How are we going to reach our goal? 	<p style="text-align: center;">Technological in Nature</p> <ul style="list-style-type: none"> ➤ Activity must rely on principles of one of the following sciences <ul style="list-style-type: none"> • Engineering • Physical sciences • Computer sciences • Biological sciences ➤ <i>Not Social, Economic or Psychological Sciences</i>

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