



Possible *(Re)Defined*TM



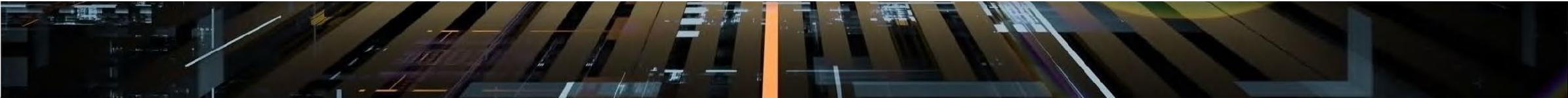
Confidence and Clarity



Integrated Solutions



Insight and Foresight



SAAS ROUNDTABLE

How SaaS Companies Can Leverage the Inflation Reduction Act With R&D Tax Credits in 2023

KNOWLEDGE

Learning Objectives



EXPENSES:
Determine which of
your expenses qualify
for the R&D tax



CHANGES:
Discuss the changes
to the current tax
credits from the
Inflation Reduction Act



BENEFITS:
Unpack the benefits to
high-growth SaaS
companies in the
current economy



HOW TO FILE:
Understand
qualifications for the
tax credit and how to
file

QUALIFICATION

Requirements for CPE



RESPOND

Actively Respond to all
Polling Questions



STAY ON

Stay on for the duration
of the broadcast

- Log in as an individual

FOR QUESTIONS

If you have technical
difficulties responding
to the polls, please send
an email to:

- Elevate@armanino.com
- Please include the name/date of
your session along with your poll
response

WELCOME

Today's Presenters



Nick Gibbons

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FEDERAL RESEARCH CREDIT

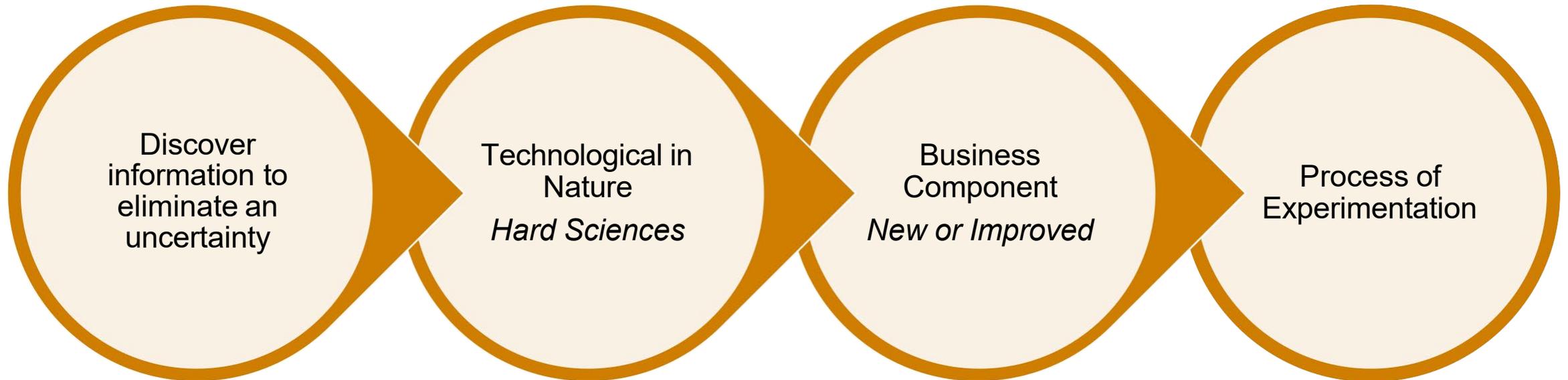
Typical Benefits

- QSB Startups - 10% Cash Benefit up to \$250k in 2022 and \$500k in 2023
- Non-QSB Companies – 7.9% Income Tax Savings

QUALIFIED RESEARCH

4-Part Test

Tests which ALL must be satisfied



FEDERAL RESEARCH CREDIT

Non-Qualified Activities

- **Any research conducted after the beginning of commercial production of a business component**
- **Any research related to the adaptation of an existing business component to a particular customer's requirement or need**
- Any research related to the reproduction of an existing business component from a physical examination of the business component itself or from plans, blueprints, detailed specifications, or publicly available information with respect to such business component
- Any efficiency survey
- Any activity relating to management function or technique
- Any market research, testing, or development (including advertising or promotions)

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Non-Qualified Activities (continued)

- Any routine data collection
- Any routine or ordinary testing or inspection for quality control
- Any research with respect to computer software which is developed primarily for internal use, other than for use in:
 - Activities which constitute qualified research
 - A production process, which meets the four tests outlined for qualified research above
- **Any research conducted outside the United States**
- Any research in the social sciences, arts, or humanities
- **Any research to the extent funded by any grant, contract, or otherwise by another person or governmental entity**

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Qualified Research Expenses

- Wages paid or incurred to an employee for qualified services
- Supplies (tangible) used in the conduct of qualified research
- Computers rented or leased for use in qualified research (e.g. AWS)
- 65% of contract research costs

FEDERAL RESEARCH CREDIT

Small Business Payroll Tax Offset

2022 Qualified Small Businesses (QSB)

- Gross receipts must be LESS than \$5M in 2022
- Must have had NO gross receipts before 2018
 - i.e., can only have gross receipts in the last 5 years
- QSB includes C corps, S corps, partnerships and individuals
- Controlled group and predecessor rules apply

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Payroll Tax Offset Benefit

Annual election to specify the amount of R&D credits that will be applied to offset EMPLOYER portion of Social Security Tax / OASDI (6.2%) up to \$250,000 each year

AND

Starting in 2023 tax year - to be applied to offset EMPLOYER portion of Medicare Tax (1.45%) up to \$250,000 each year

FEDERAL RESEARCH CREDIT

Sec. 41 – Research Credit Example

Total QREs	\$3,000,000
Fixed-base %	3.00% (Startup % first 5 years)
Average Gross Receipts	\$1,000,000
Base Amount	\$30,000
Minimum Base Amount	\$1,500,000
QRE Less Base Amount	\$1,500,000
Gross Credit	\$300,000
Reduced Credit	\$237,000

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Legislative Update

Inflation Reduction Act was signed into law on August 16, 2022 - allowing qualified small businesses to use research credits to offset Medicare taxes of up to \$250,000 per year

- In addition to the 2015 PATH Act \$250,000 max per year that can be used to offset FICA taxes

Chief Counsel Advice Memorandum 20214101F - provides guidelines for the additional information taxpayers are required to submit with a Section 41 R&D Credit claim for refund

On September 30, 2022, the IRS extended the 45 days transition period by one year, meaning that the IRS will continue to give taxpayers 45 days to perfect a deficient claim through January 10, 2024

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Why this is important to SaaS Companies?

- Qualified Small Business (QSB)
 - Immediate cash benefit with payroll tax offset
- Non-QSB with taxable income
 - Tax credits can reduce your income tax liability
- Non-QSB with Net Operating Losses
 - Hold off on R&D study until you burn through your NOLs.
 - We can then go back and true up prior years and calculate carryforwards with an R&D study

Q&A

WE'RE HERE TO HELP

Thank you for
attending

Additional Questions?

Reach out to us at

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