

Is your firm taking advantage of the Research Tax Credit of IRC § 41 commonly known as the R&D Tax Credit?

For those who know me or have heard my “sales pitch”, you have probably heard me state: “I am a CPA, but I don’t do tax work of any kind. My specialty centers around Job Cost Systems and Financial Project Management.” That statement remains true today. However, there is a tax credit offered by the IRS that has been on the books since 1984 that many firms in the A&E industry can take advantage of.

To explain the credit in more detail, I will let the experts on the subject provide the details and background. I have included some links to relevant articles below:

<http://www.journalofaccountancy.com/issues/2010/mar/20092122>

<http://www.washingtonpost.com/blogs/wonkblog/wp/2014/01/24/theres-a-war-over-rd-tax-credits-and-companies-keep-winning/>

If those links do not work, I have saved the articles as PDF’s and posted them on my website here:

<http://www.unlockthedata.com/axtaxcredit.htm>

The purpose of this article is threefold:

- 1) To enlighten you that the credit exists, and that it could be advantageous to your firm to claim.
- 2) To guide you through the process of harvesting the data properly from your Ajera or Protrax system.
- 3) Provide alternative resources to calculating the credit and harvesting the data.

The first goal has been addressed, so let’s discuss the second goal, harvesting the data from your Ajera and Protrax systems to properly calculate the basis for the credit. Unfortunately, this process can be challenging. There are several factors or variables to consider.

- 1) Does your firm file taxes on a cash or accrual basis?
- 2) Does your firm outsource or process payroll in house?
- 3) Does your firm utilize contract employees (non W-2 employees completing an Ajera or iTime timesheet)?
- 4) Does your firm reconcile your Job Cost ledger to the General Ledger or your Utilization report results to the General Ledger?
- 5) Does your firm have Ajera / Protrax configured for standard or effective cost?
- 6) If number 4 above was Standard Cost, does your firm reconcile your payroll variance?

At this point, you may be realizing, that a simple inquiry (Ajera) created from the standard transaction inquiry may or may not accomplish this task. Honestly, I do not know if it can or cannot (I utilize Management Studio and Reporting Services to accomplish 99% of reporting work, so my Inquiry skills are limited). It really is based on the variables discussed earlier. For many my guess is, no. I do know the following to be true:

- 1) The accounting date from the General Ledger is the correct date to use, not the transaction date for conditioning your data.
  - Accrual based filers have an advantage here, because the transaction date and accounting date should be the same.
  - For outsourced payroll cash basis filers, the payment date associated with the vendor invoice should be the accounting date. Either date should be acceptable for conditioning the data.
  - For in-house payroll cash filers, the “Pay Date” should be the accounting date. Either date should be acceptable for conditioning the data.
- 2) Effective cost not standard cost is the proper basis to determine cost. The IRS is not concerned with your “level of effort”. They care about the true cash outlay to determine the basis for the credit. Most Ajera firms use standard cost. The effective cost option only recently became available\*\*.
  - In-house payroll processors have the advantage here. There is a field in the transaction table “Payroll Cost” that tracks the effective or true cost, but it only populates when payroll is processed on an in-house basis. This field when populated, stores the proper value.
  - Outsourced payroll users would need to calculate the true or effective cost by other means.
- 3) W-2 Wages are treated differently from 1099 payments in determining the basis for the credit. Therefore, firms that utilize contract employee must segregate contract employee labor from W-2 labor. Many Ajera users utilize contract labor.
- 4) The results from your work, should tie out to the General ledger +- a reasonable variance.
- 5) Non-labor costs are much easier. Accounting date is the proper and safest date for both accrual and cash filers. Depending on workflow and procedures, invoice or transaction date may work for accrual filers, and check date is an acceptable alternative for cash filers.

The above information is intended to assist those persons wish to harvest the data themselves. For others, the task can be daunting. As in most situations, there is an alternative for those who do not have the time or resources to harvest the data and calculate the tax credit themselves. I have been specializing in harvesting this data since 2008, and I partner with a firm that specializes in determining the credit and preparing the paperwork. If this direction is of interest to you, please contact me at 707-280-7724 or [mbrennan@unlockthedata.com](mailto:mbrennan@unlockthedata.com) for a no cost consultation.

R&D Tax Credit 101 for Ajera and Protrax Users

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\*\* Standard cost is my preferred setup choice. Consistent results for project management purposes should far outweigh any concerns regarding calculating tax credit amounts.