

AN ALERT FROM THE BDO FEDERAL TAX PRACTICE

# BDO KNOWS:

## FEDERAL TAX



### SUBJECT

## RESEARCH & DEVELOPMENT TAX CREDIT MADE PERMANENT

### SUMMARY

On December 18, 2015, President Obama signed the *Protecting Americans from Tax Hikes ("PATH") Act of 2015*, which includes a provision making permanent the Research & Development ("R&D") tax credit under Section 41. This is a very significant development, as the R&D credit generally has required annual legislative renewal. A permanent R&D credit will provide businesses and investors the stability needed to enhance long term planning and decision making.

### DETAILS

#### *Added Benefits*

In addition to being made permanent, for tax years beginning after December 31, 2015, the R&D tax credit will have two added benefits. First, eligible small businesses (those that are privately held and with \$50 million or less in average gross receipts for the three preceding tax years) may utilize the R&D tax credit against their Alternative Minimum Tax ("AMT"). Historically, businesses could only use the R&D tax credit to offset ordinary tax liability and only to the extent this liability exceeded their AMT, with one exception to this rule in 2010.

Additionally, startup companies (those with gross receipts of less than \$5 million for the current tax year and no gross receipts for any tax year before the five tax years ending with the current tax year) may utilize the R&D tax credit against employer's payroll tax (i.e., FICA) up to \$250,000. This is an important added benefit, as startup companies investing in new technologies often do not pay income taxes.

### CONTACT:

**CHRIS BARD**  
National Leader  
(310) 557-7525 (LA)  
(212) 515-5421 (NY)  
cbard@bdo.com

**JONATHAN FORMAN**  
Principal  
(212) 515-5441 / jforman@bdo.com

**JIM FEESER**  
Senior Director  
(732) 750-0900 / jfeeser@bdo.com

**HOON LEE**  
Partner  
(415) 490-3247 / hslee@bdo.com

**CHAD PAUL**  
Senior Director  
(414) 272-5906 / cpaul@bdo.com

**PATRICK WALLACE**  
Senior Director  
(404) 979-7107 / pwallace@bdo.com

**DAVID WONG**  
Principal  
(310) 557-8254 / dwong@bdo.com

## CONCLUSION

With a permanent R&D tax credit, businesses now face a more reliable and predictable future. Moreover, the extension of the credit to small businesses and startups broadens its availability to taxpayers. The PATH Act now provides economic stability that can help spur long-term innovation and investment in new and improved ideas.

The Tax Practice at BDO is among the largest tax advisory practices in the United States. With 63 offices and more than 450 independent alliance firm locations in the United States, BDO has the bench strength and coverage to serve you.

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, financial advisory and consulting services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through 63 offices and over 450 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multinational clients through a global network of 1,328 offices in 152 countries.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information, please visit [www.bdo.com](http://www.bdo.com).

Material discussed in this tax alert is meant to provide general information and should not be acted on without professional advice tailored to your firm's individual needs.

© 2015 BDO USA, LLP. All rights reserved. [www.bdo.com](http://www.bdo.com)