

# Research & Development

## Tax Credit Case Study: Architecture Company

### Overview:

XYZ Architects is located in Providence, Rhode Island, and specializes in the design of buildings in the commercial and governmental sectors. The company employs a staff of architects and intern architects that spend substantially all of their time working on billable projects either in the programming, SD, DD, CD, or CA phases. In recent years, the Company had positioned itself to offer design/build services to building owners. XYZ contacted Alternate Tax Solutions (ATS) to perform an analysis of their operations to determine if their activities would qualify for the R&D Tax Credit.

### R&D Research Analysis and Credit Findings:

ATS reviewed contract documents and employee project logs, as well as conducted a series of interview sessions with almost all of the architects at the company. Through this process, ATS was able to identify that 95% of XYZ's projects would be eligible for the R&D Credit. It was found that the programming through the CA process required constant evaluation of alternative design approaches for the overall building and all of the sub-components. The amount of time each employee spent working within this process to take drawings from concept to 100% CD to a fully constructed building was identified, and the corresponding W-2 wages for each employee were allocated towards the credit.

ATS also found that XYZ paid a number of third-party consulting engineers to provide designs for various systems on each project. Through review of contracts between XYZ and its vendors, ATS found that all contractor research was done on behalf of XYZ. Since XYZ was ultimately responsible for assembling all drawings into its deliverable and would be financially liable to the client should any of the designs fail, ATS found that it had a right to claim these third-party engineers as consultant expenses. It was found that XYZ paid for the knowledge and process of the contractor rather than the results of the research.

## Qualified Research Activities:

- Pre-bid design and programming
- BIM and CAD modeling
- VR/AR model development
- Value-engineering analysis
- On-site investigation and existing-conditions modeling
- SD, DD, CD design activities needed to create 100% drawings
- Red-lining and internal review of designs
- Revisions to design concepts resulting from owner/regulatory feedback
- Evaluation of alternative systems and sub-components
- Designs created by third-party engineers on behalf of XYZ
- Resolving problems encountered during construction admin

## R&D Tax Credit Findings:

The resulting tax credits are highlighted in the following table:

Year	Total Wages	Total Qualified Wages	Total Qualified Contractors	Federal R&D Credit	State R&D Credit*
2016	\$2,244,974	\$1,872,083	\$359,161	\$223,124	\$17,250
2017	\$1,796,687	\$1,408,946	\$798,358	\$220,730	\$34,604
2018	\$1,936,488	\$1,646,016	\$683,806	\$232,982	\$53,316
2019	\$2,056,343	\$1,742,664	\$801,554	\$254,421	TBD

\* This number only represents state credits actually used.

**Total benefit after add-backs and adjustments: \$746,107**  
**Total ROI from the engagement with Alternate Tax Solutions: 18:1**



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