

Research & Development

R&D Tax Credit Case Study: Regenerative Medicine Practice

Company Overview:

ReGen Medicine PC is a multi-disciplinary wellness and rehabilitation practice that specializes in utilizing advanced techniques to treat pain and rehabilitate its customer base. The Company employs a team of doctors, chiropractors, nurse practitioners and other support staff. In recent years, ReGen has undertaken efforts to explore how new advancements in stem cell technology and regenerative medicine techniques can be implemented into its practice. To do this, the Company has allocated portions of the time of its practitioners towards researching and testing various new techniques to see if patient outcomes can be improved.

R&D Credit Analysis:

ReGen engaged Alternate Tax Solutions (ATS) to perform an analysis of its exploration into regenerative medicine to see if any of its activities could qualify for the Research and Development Tax Credit. ATS held a series of meetings with management to review processes associated with these efforts to see if activities within the process comply with the *four-part* test established by the Internal Revenue Code.

ATS found that ReGen had established a process to test and observe results of new techniques aimed at solving specific problems that its customers face. If the tests did not yield positive results for its clients, ReGen would perform additional services using traditional physical therapy and chiropractic techniques at discounted or no fee. Therefore, ATS found that the Company had taken a financial risk to attempt to improve its business component. Since these efforts involved testing alternatives, observing results, and implementing or abandoning its new hypotheses, ReGen showed that each effort represented uncertainty and relied on a process of experimentation to prove or disprove its initial hypothesis.

Qualified Research Activities:

- Perform research on the medical literature surrounding basic research results on new therapeutic techniques, platelet-rich plasma, and stem cell injections.
- Hold team meetings to identify potential use cases and to form hypotheses as to how specific patient conditions can be treated using a new technique.
- Carry out new treatment techniques on test cases.
- Document results of these test cases over time.
- Observe results and identify inefficiencies.
- Test alternative treatment hypotheses on new test cases to attempt to improve the outcome.
- Hold regular team meetings to review results.

Qualified Research Expenses:

Through its interview process, ATS was able to identify the percentage of time throughout the year that practitioners and support staff spent engaged in the qualified research activities. All time spent engaged in routine delivery of normal services to patients and administration of the business was considered non-qualified research and excluded from the R&D calculation. The percentages of time engaged in qualified research were multiplied against the W-2 wages of each employee to determine qualified research expenses. ATS was also able to identify wages associated with this research in the base-year period so it could calculate the R&D Credit using all available methods.

R&D Credit Results:

Tax Year	2016	2017	2018	2019	2020
Total QREs	\$97,555	\$134,582	\$149,412	\$132,547	\$137,138
Total Credits	\$ 4,502	\$ 8,748	\$ 9,712	\$ 10,471	\$ 10,834

Total Five-Year Net Tax Benefit- \$44,267
Projected Ten-Year Net Tax Benefit- \$119,002

By working with a tax professional with specialized expertise in the R&D credit, ReGen was able to ensure that only expenses that meet the regulatory definitions for R&D credit qualification were calculated. The company was able to amend returns from 2016-2018 to obtain Treasury refund checks for tax overpayments. All future tax credits will be used to offset federal income tax liabilities. Since ReGen is a pass-through entity, all credits flow directly to the personal returns of the owners.