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R&D CREDIT



WHAT IS THE R&D TAX CREDIT?

The R&D tax credit is one of the most powerful tax incentives in the tax code. Due to the broad definition of "qualified research", businesses in nearly every industry can take advantage of the credit.

The R&D tax credit is based on "qualified research expenses" (QREs) - for every dollar spent on QREs, you can earn up to $0.04 to $0.07 in federal tax credits! The R&D tax credit is a federal incentive, but many states also offer their own versions, which means even more opportunities for tax savings.

Permitted Purpose Test	Technologically in Nature	Technical Uncertainty	Process of Experimentation
• New or Improved • Product, process, technique, formula • Purpose: Functionality, durability, quality, reliability	• Engineering, physics, chemistry, biology, or computer science • Existing principles are usable	• Capability • Methodology • Final or appropriate design	• Systematic evaluation of alternatives • Trial and Error

COST SEG.



WHAT IS COST SEGREGATION?

A traditional cost segregation study allows companies and individuals who have constructed, acquired, or renovated real estate to increase cash flow by accelerating depreciating tax deductions.

WHAT IS COST SEGREGATION+ ?

All of BRAYN's studies are led by licensed professional engineers. Our Cost Seg+ studies are a more comprehensive tax strategy for real estate with accelerating depreciation deductions.

Eligible Cost Seg+ Business+
• Businesses in any industry who own their own commercial building • Commercial property owners • Income-producing residential property owners

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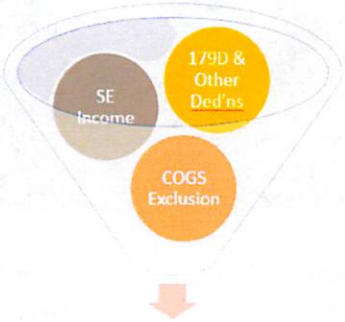
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BRAYN Consulting LLC

174 R&E – We are helping CPAs provide strategy and options to mitigate risk and potential solutions to offset costs due to the 174 Amortization issue.

Opportunities for Mitigation and Improvement:



Improved 174 Analysis



Jasmine Nouri
Account Manager
310-480-0445

SCAN ME

Identifying Tax Savings Opportunities

Industry	R&D	45L	179D	Cost Seg.	Sec. 48 ITC
Architecture	✓		✓		
Engineering	✓		✓		
Construction	✓		✓		
Multi-Family Developers		✓	✓	✓	✓
Home Builders	✓	✓		✓	✓
Real Estate Owners/Investors		✓	✓	✓	✓
Software/Technology	✓				
Manufacturing	✓		✓	✓	
Distribution & Logistics	✓		✓	✓	
Gov. & Tax-Exempt Bldg. Owners			✓	✓	✓

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Course Description and Learning Objectives

- As businesses strive to maximize their bottom line, tax saving opportunities are becoming increasingly important. This course is specifically designed to assist the trusted CPA advisors in determining qualification for:
  - R&D Tax Credit
  - 179D Energy Efficient Commercial Building Deduction
  - Cost Segregation
- Attendees will learn about the history of these tax incentives, what legislative changes are taking place, where the tax incentives are headed in the future, and how your clients can capitalize upon them.
- Attendees receive 1.0 hours of CPE

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Agenda

- Overview of taxpayer eligibility for the following business incentives:
  - R&D tax credits
  - 179D energy efficiency building deductions
  - Cost segregation
- Review the impacts of OBBBA on the incentives
- Discuss related tax filing and tax planning strategies for consideration

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Ryan Team



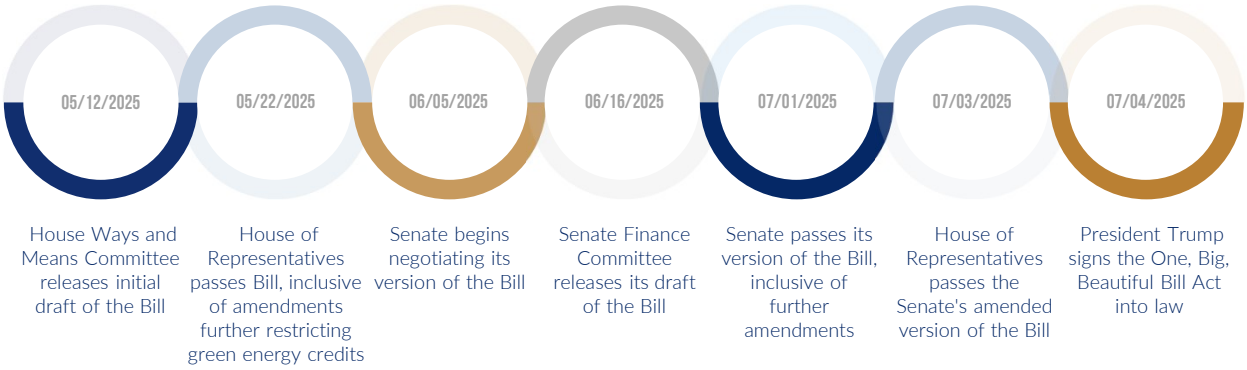
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"One, Big, Beautiful Bill" (OBBB) Summary Timeline



OBBBA Impacts - Key Corporate-Related Provisions

- R&D
  - Prior Law
    - 174 research & experimentation expenses capitalized over 5 years (domestic) or 15 years (foreign)
  - New Law
    - Immediate expensing made permanent as of 1/1/2025
    - 1 or 2 tax year deduction windfall for previously capitalized amounts
    - Additional benefits options for small companies (less than 31M in gross receipts)
    - Foreign expenses still require capitalization

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OBBBA Impacts - Key Corporate-Related Provisions

- 179D - Incentive for Commercial Buildings & Retrofits Construction
  - Prior Law
    - No phaseouts or termination dates
  - New Law
    - Only eligible for properties that have started construction by 6/30/2026
- 179 – Small Business Expensing of Tangible Property
  - Prior Law
    - Up to $1M expensing of tangible personal property, software and QIP placed in service each tax year
  - New Law
    - Increased maximum to $2.5M with increased phaseout threshold of $4M for property placed in service after 2024

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OBBBA Impacts - Key Corporate-Related Provisions

- Cost Segregation - Bonus Depreciation
  - Prior Law
    - 100% bonus depreciation phase-out: 60% bonus depreciation for 2024; 40% for 2025; 20% for 2026; and 0% beginning in 2027
  - New Law
    - Permanent 100% bonus depreciation for certain property acquired beginning 1/20/2025
    - Created 100% deduction for certain new factory costs

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The Research & Development (R&D) Tax Credit

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Research & Development (R&D)

"Any attempt to solve a technical uncertainty for the creation of a new or improved product or service through experimentation."

- Almost 44-year-old credit is now a permanent part of the tax code
- Federal Tax Benefit: 7% to 10% of Qualified Research Expenses (QRE)
- Dollar-for-Dollar reduction in tax liability
- General Rule: 1 Year Carryback; 20 Year Carryforward
- S Corps & Partnerships – R&D tax credit flows through to the owners
- Many states offer an R&D tax credit
- Must qualify under the four-part test



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4-Part Test for R&D Qualification

Business Component for Permitted Purpose

- **What is a Business component? (new or improved)**
  - Product, Process, Technique, Formula, Invention, Computer Software
- **What is Permitted Purpose?**
  - Function, Performance, Quality, Reliability

Uncertainty

- **Three types of Objective Uncertainty:**
- Capability
- Methodology (method of development)
- Final or Appropriate Design
- **Only need 1 to qualify**

Process of Experimentation

- **Systematic evaluation of alternatives**
- **Trial and Error**

Technological in Nature

- **Process of** elimination **must rely on one of the hard sciences such as:**
  - Computer Science
  - Physical Science
  - Biological Science
  - Engineering
- Existing principles can be relied upon

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R&D Exclusions

- —R&D outside the United States
  - Note: these costs must still be capitalized under OBBA)
- —R&D after commercial production has started
- —Reverse engineering
- —Efficiency surveys or marketing activities
- —Aesthetic, cosmetic, or seasonal-type design decisions
- —Funded research
  - R&D performed under Time & Materials or Cost-Basis contracts excluded
  - Fixed fee and lump sum contracts far more likely to qualify

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Qualified Research Expenses (QREs)

WAGES

- W-2 Wages, Box 1
- Portion of SE Earnings for Partnerships and Schedule C filers
- Claim % based on time spent in qualifying activities

SUPPLIES

- Raw material costs
- Consumables
- Prototype component costs

CONTRACTORS

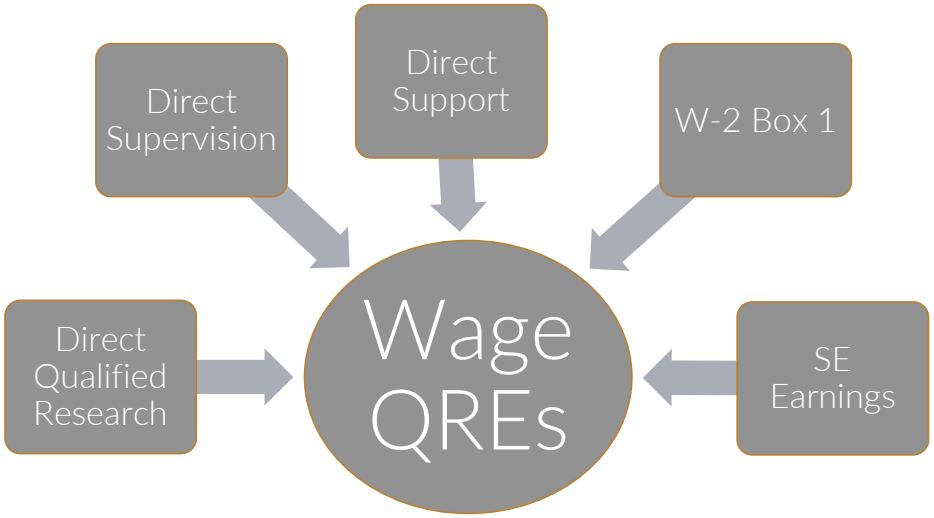
- Almost always 65% of amount paid
- Costs related to third-party contractors performing qualifying activities
- Outside consulting, engineers, testing facilities

RENTAL OR LEASE OF COMPUTERS

- Modern-day costs for access to cloud-computing servers.
- Using the technology as a testing environment for R&D development
- i.e. Amazon Web Services (AWS)

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Wage QREs



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R&D-Applicable Industries Today

- Manufacturing
- Architecture & Engineering
- Construction & Specialty Sub-Contracting
- Software Development
- Energy & Alternative Energy
- Aerospace & Defense
- Quantum Computing
- Artificial Intelligence & Machine Learning
- Cybersecurity
- Agriculture
- Electronics
- Biotech
- Chemical
- Food Science (food & beverage manufacturers)
- Industrial and Consumer Product Manufacturer
- Transportation, Distribution & Autonomous Vehicles
- Sustainability

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Architecture & Engineering

Case Study: Process of Design Development

- Fixed fee / lump sum projects are ideal, demonstrate financial risk, also need substantial rights
- Typical percentages of qualifying payroll 40-60%
- Time tracking to project using phase/task analysis is available in most cases
  - Most R&D design work occurring during SD, DD, CD phases
  - CA & interior décor time does not qualify

ITEM	AVERAGE ANNUAL AMOUNT
GROSS REVENUES	$ 4,500,000
TOTAL PAYROLL	$ 2,500,000
QUALIFIED RESEARCH EXPENSES (QRES)	$ 1,000,000
NET FEDERAL CREDITS	$ 70,000
NET STATE CREDITS	$ 35,000
TOTAL NET FEDERAL & STATE CREDITS	$ 105,000

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Manufacturing

Case Study: Products & Processes

- Product Design & Testing
- First-Article Runs
- CNC Programming
- Tooling Development
- Equipment Development
- Process Design & Development
- Quality Assurance
- CA & interior décor time does not qualify

ITEM	AVERAGE ANNUAL AMOUNT
GROSS REVENUES	$ 15,000,000
TOTAL PAYROLL	$ 5,600,000
QUALIFIED RESEARCH EXPENSES (QRES)	$ 1,100,000
NET FEDERAL CREDITS	$ 77,000
NET STATE CREDITS	$ 38,500
TOTAL NET FEDERAL & STATE CREDITS	$ 115,500

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§ 174 – Suspension of Domestic R&E Capitalization Under OBBBA

- Enacted Changes – Immediate Expensing of Domestic Research
  - Permanently removes capitalization requirement of domestic R&E expenditures for taxable years beginning after 12/31/2024
  - Domestic capitalization suspension is treated as a change in accounting method (requiring a Form 3115 filing)
  - Taxpayers may elect to immediately deduct unamortized domestic R&E amounts that were capitalized in previous years
    - Can choose to deduct all unamortized amounts in 2025 or spread across 2025 and 2026
    - Election to be treated as a change in accounting method (requiring a Form 3115 filing)
  - Taxpayers may elect to continue capitalizing and amortizing domestic R&E expenditures (for a period of 5 years or more)
  - Capitalization and a 15-year amortization period for foreign-sourced R&E expenditures remain

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§ 174 – Suspension of Domestic R&E Capitalization under OBBBA – Small Business Retroactive Relief

- Retroactive Relief for Small Businesses
  - Definition is average gross receipts below $31M for tax years 2022, 2023 and 2024
  - Ability to retroactively deduct 2022 – 2024 costs by amending returns
  - Ability to claim 280C reduced credit election on amended returns
  - Consider your 2024 filing options if not completed yet or filed on extension
  - Taxpayers can take advantage of these elections for one year following the date of the OBBB exactment

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The 179D Energy Efficient Commercial Building Deduction

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179D Commercial Building Energy-Efficient Tax Deduction

Until the OBBB, this was a Permanent Section of Internal Revenue Code

- Went into effect in 2006, Made permanent in 2020, significant updates 2022 Inflation Reduction Act

Tax Deduction of up to $5.00/SF

- Deduction amount ranges from $0.50-$5.00/SF depending on building energy performance and P/W & Apprenticeship

New Construct, Addition, and Renovation Projects

- Deduction claimed year project is placed into service

Deduction Can Be Allocated to an Eligible Designer

- Tax exempt entities unable to claim incentive as they do not depreciate property

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179D Building & System Requirements

Fully Enclosed

- Building area fully enclosed

Conditioned

- Mechanically Ventilated and Conditioned.

Occupiable

- The interior space must be mechanically ventilated and conditioned.

Building Envelope

- Walls, Roof, Foundation, Doors, Windows

Interior Lighting

- Does not include Exterior or Task Lighting

HVAC & Hot Water

- Heating / Air Conditioning and Domestic Hot Water.

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Inflation Reduction Act Impact to 179D

179D Provision	Previous Law PIS Date Before 1/1/2023	IRA Changes PIS Date Starting After 12/31/2022
MAX DEDUCTION	$1.80/SF ($1.88/SF in 2022)	$0.50/SF to $5.00/SF*, sliding scale
ENERGY EFFICIENT REQUIREMENTS	50% better than ASHRAE 90.1 standard	25-50% better than ASHRAE 90.1 standard
ENTITIES THAT CAN ALLOCATE 179D	Federal, State, or local government or a political subdivision thereof	Government entities **PLUS** • **Indian tribal governments,** • **Alaska Native Corporations, and** • **Tax-Exempt Entities**

Inflation Reduction Act Impact to 179D

Taxpayer	Building Envelope	HVAC and Hot Water	Interior Lighting	179D Eligible?
Architecture	✓	✓	✓	✓
Landscape Architecture				Likely Not
Mech. Engineering		✓		✓
Elect. Engineering		*	✓	✓
Civil Engineering	*			Likely Not
Structural Engineering	+			Possible
Env Engineer	*	*	*	Likely Not
General Contractor	+	+	+	Possible
MEP Contractor		✓		✓
Electrical Contractor		*	✓	✓

- Secure allocation letters early
- Consider split allocations with other eligible designers
- Consider making 179D allocations part of contracts with clients

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OBBBA – Impacts to Green Energy Tax Incentives

- Termination or phaseouts to numerous Green Energy Incentives
  - 179D – terminated for buildings that have not begun construction by 6/30/2026
    - However, we believe this termination was a budgetary maneuver, rather than a signal of long-term policy direction.
    - From 2005 – 2020, 179D was regularly part of an extenders' bill that was consistently renewed.
    - We have never seen 179D not be retroactively extended throughout its active history.
    - Our team is actively working to push for reconsideration in DC through our connections with critical industry organization advocacy groups.

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Summary of Green Energy Incentive Terminations

Credit Name	Pre-OBBB Termination Date	OBBB Revised Termination Date
§ 48E - Clean Electricity Investment Credit (ITC)	Phaseouts set to begin for BOC dates no earlier than 2033.	***Wind & Solar Only:*** Fully expired for PIS dates after 12/31/2027 (for BOC dates after 07/04/2026). ***All Other Qualifying Facilities:*** Pre-OBBB phaseout schedule remains for BOC dates in 2033 and beyond (fully expired in 2037).
§ 45Y - Clean Electricity Production Credit (PTC)		
§ 45X - Advanced Manufacturing Credit (PTC) *(wind components only)*	Phaseouts set to begin in 2030 (fully expired in 2033).	No credit for wind components sold after 12/31/2027.
§ 45X - Advanced Manufacturing Credit (PTC) *(all other components)*		n/a - no change from current law.
§ 45X - Advanced Manufacturing Credit (PTC) *(critical minerals only)*	No expiration date.	Phaseouts set to begin in 2031 (fully expired in 2034). *Metallurgical coal set to expire for production after 12/31/2029.*
§ 45Z - Clean Fuel Production Credit (PTC)	No credit for sales after 12/31/2027.	No credit for sales after 12/31/2029.
§ 45Q - Carbon Oxide Sequestration Credit (PTC)	No credit for facilities PIS after 12/31/2032.	n/a - no change from current law.
§ 45U - Zero-Emission Nuclear Power Production Credit (PTC)	No credit for production after 12/31/2032.	n/a - no change from current law.
§ 45V – Clean Hydrogen Production Credit (PTC)	Must begin construction before 01/01/2033.	Fully expires for facilities with BOC dates after 12/31/2027.
§ 48D – Advanced Manufacturing Investment Credit (ITC)	Must begin construction before 12/31/2026.	Termination date remains the same but credit increased from 25% to 35% for PIS dates after 2025.
§ 30D – Clean Vehicle Credit	No credit for acquisitions after 12/31/2032.	Fully expires for acquisitions after 09/30/2025.
§ 45W – Qualified Commercial Clean Vehicle Credit	No credit for acquisitions after 12/31/2032.	Fully expires for acquisitions after 09/30/2025.
§ 30C – Alternative Fuel Vehicle Refueling Property Credit	No credit for PIS dates after 12/31/2032.	Fully expires for PIS dates after 06/30/2026.
§ 45L – New Energy Efficient Home Credit	No credit for acquisitions after 12/31/2032.	Fully expires for acquisitions after 06/30/2026.
§ 179D – Energy Efficient Commercial Buildings Deduction	No Termination.	Fully expires for property with BOC dates after 06/30/2026.

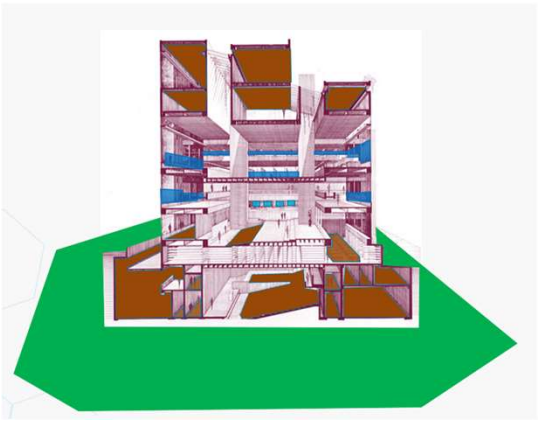
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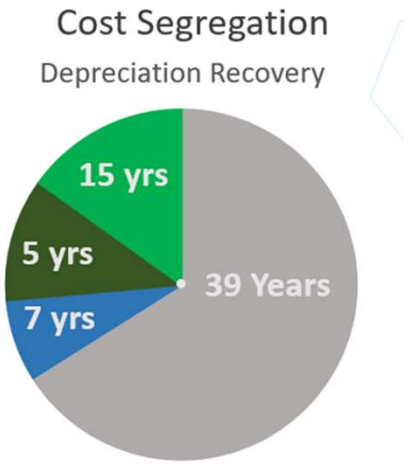
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Cost Segregation

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Overview of Cost Segregation Benefits



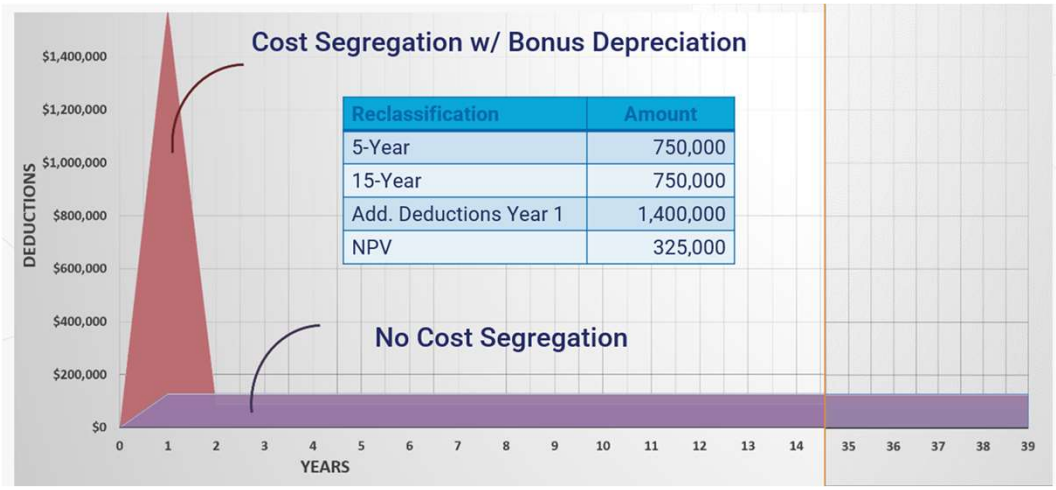


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Overview of Cost Segregation Benefits (cont.)

Cost Segregation Impact - $10 MM + Property



Reclassification	Amount
5-Year	750,000
15-Year	750,000
Add. Deductions Year 1	1,400,000
NPV	325,000

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OBBBA – Impacts to Bonus Depreciation § 168

- Current Law – In the Midst of TCJA Phaseouts
  - Bonus depreciation is generally eligible for most equipment and machinery with a recovery period of 20 years or less (if placed in service after 2017).
  - TCJA implemented 100% bonus depreciation, with a 20% annual reduction starting in 2023.
  - Qualified property placed in service in 2025 is eligible for 40% bonus depreciation, and 20% bonus depreciation is available for 2026 placed-in-service dates.
- Enacted Changes – Permanent 100% Bonus Depreciation
  - Permanent 100% bonus depreciation for property acquired/placed in service after 01/19/2025.
  - 100% rate applies to acquisitions after 01/19/2025. Acquisitions before that would follow the existing TCJA phaseout schedule.
  - Taxpayers may elect to apply a 40% bonus depreciation rate for qualifying property placed in service in the first taxable year beginning after 01/19/2025.
    - Election only applies to that first taxable year. All taxable years after will follow 100% bonus depreciation unless the taxpayer elects out of provision.

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§ 168 – 100% Deductibility for Factories

- New § 168(n) – Immediate Expensing for Cost of New Factories or Certain Factory Improvements
  - New election for a 100% depreciation deduction for "Qualified Production Property" in the year it's placed in service, which otherwise would be depreciated over 39 years.
  - "*Qualified Production Property*"
    - Placed in service in the U.S. and original use begins with the taxpayer
    - Is used in an integral part of a "qualified production activity"
    - Construction must begin after 01/19/2025 and before 01/01/2029 and must be placed in service before 2031.
      - Rehabilitated factories may qualify if there was no production activity between 01/01/2021 and 05/12/2025.
  - "*Qualified Production Activity*"
    - Manufacturing, producing, or refining tangible personal property
    - "Production" is limited to agricultural and chemical production
    - Requires a *substantial transformation* of tangible property
  - § 1245 recapture rules apply if property ceases to be used in a qualified production activity or if the property is disposed of within 10 years of the placed-in-service date.

Thanks for Attending - Questions



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