

What A/E/C Firms Need to Know About the R&D Tax Credit and the Employee Retention Credit

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In order to stimulate the U.S. economy during the pandemic, the federal government enacted stimulus initiatives including the Paycheck Protection Program (PPP). The PPP enabled a business to receive a loan, with the ability to be forgiven if used according to loan guidelines that were put in place to help businesses keep their workforce employed during the COVID crisis. While many architecture, engineering, and construction (A/E/C) businesses successfully participated in the program, receiving the loan and later applying for and receiving forgiveness, the tax ramifications of receiving a PPP loan initially were somewhat unclear. One area of uncertainty was the tax deductibility of expenses covered by the PPP, which would also impact and reduce the expenses that could be claimed for the Research and Development (R&D) tax credit.

R&D tax credits are available to A/E/C industry companies that design and develop new or improved products, processes, methods, techniques, or materials. In addition to “revolutionary” activities, research credits may also be available to companies performing “evolutionary” activities or incremental improvements to their products and production processes.

R&D tax credits are an effective way for companies in the A/E/C industry to generate additional cash flow while innovating and increasing their capabilities to meet continuously evolving new technical market requirements. The time that employees spend developing innovative solutions while attempting to solve complex architectural design and structural engineering challenges can potentially be included as a research expense for their company toward the R&D tax credit.

A recent Revenue Ruling now allows taxpayers to deduct expenses covered by the PPP loan. This also allows for those expenses to be included in R&D calculations for the 2020 year.

The Consolidated Appropriations Act (The Act) brought further relief to struggling businesses through an expanded Employee Retention Credit (ERC) for the 2021 year. As a result of the new legislation, eligible A/E/C employers can now claim a refundable tax credit equal to 70% of the qualified wages they pay to employees, with a cap of \$7,000 per employee for each quarter. Taxpayers are eligible for 2021 if their business was impacted by a full or partial government shutdown or if there was a 20% decrease in revenue compared to the same quarter in 2019. While the ERC credit is a welcome payroll tax break to qualifying taxpayers, A/E/C companies pursuing the R&D tax credit are not allowed to include wage expenses as eligible expenses for their R&D tax credit. For taxpayers who will be claiming both the ERC and R&D tax credits in 2021, additional calculations and evaluations will be required to separate wage expenses used for each credit.

Businesses that are looking to take advantage of the tax credits and incentives available to them should perform a careful evaluation to weigh the benefits of each given their facts and circumstances. As always, we are here to help. Please reach out to [Phillip Ross](#) – A/E/C Leader, [Gleb Gorkhover](#) – Tax Credits Senior Manager, or your Anchin Relationship Partner.