

Subject: Ways to use IRS Statistics on the R&D Credit

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IRS STATS TO CATEGORIZE R&D CREDIT METRICS:

When performing compliance on for the tax return, it is helpful and useful to have a reference point as to the reasonableness of certain deductions and credits. With the R&D credit (Section 41), even more so, because it is one of the most highly visible credits to the IRS on tax returns. One of the ways clients can determine if their R&D credit is reasonable is to use the statistics published by the IRS.

Each year, the IRS release statistics across numerous areas of different tax returns (individual, flow-through, corporation, etc.)¹. These can be organized by income levels, deduction types, and organized by the area of compliance. Within this data the IRS provides statistics to corporations claiming the R&D credit.

R&D Credit Statistics

The statistics tracked for the R&D credit only tracks C-corporation type entity information and does not include flow-through type entities (partnerships, S-corporations, etc.). In addition, it is only current through 2014, but does breakout the base period methodology selected for the calculation. Lastly, it does provide data as to the R&D credit attributes by industry. The following table are the industries, as indicated on the tax returns, that are broken out in the currently available statistics.

Table 1.1: Industries tracked for the R&D credit

Agriculture, forestry, fishing, and hunting	Finance and insurance
Mining	Real estate, rental, and leasing

¹ IRS.GOV/Statistics

Manufacturing	Professional, scientific, and technical services
Wholesale and retail trade	Management of companies (holding companies)
Transportation and warehousing	Administrative and support and waste management and remediation services
Information	Various services

In addition, since manufacturing is the largest industry claiming the R&D credit, it is further broken into subcategories to provide detailed visibility.

Table 1.2: Manufacturing sub-industries for the R&D credit

Food manufacturing	Petroleum and coal products manufacturing
Beverage and tobacco product manufacturing	Chemical manufacturing
Textile mills and textile product mills	Plastics and rubber products manufacturing
Apparel manufacturing	Nonmetallic mineral product manufacturing
Leather and allied product manufacturing	Primary metal manufacturing
Wood product manufacturing	Fabricated metal product manufacturing
Paper manufacturing	Machinery manufacturing
Printing and related support activities	Computer and electronic product manufacturing
Electrical equipment, appliance, and component manufacturing	Furniture and related product manufacturing
Transportation equipment manufacturing	Miscellaneous manufacturing

Utilizing this information

This information can be useful for clients to compare or understand how their R&D credit fits within their industry. The R&D credit can be compared against the average credit for the industry or also the size of sales versus credit. In addition, the statistics can provide visibility to compare the credit against other corporations using the similar base period method.

CFO Services finds that these statistics provide a “ballpark” figure to compare against. It is also important to remember that the IRS also use these statistics as a reference point when reviewing claims during exam. These statistics should be used only as an informational guidepost, with the specific facts and circumstance of the company being the most important in determining the R&D credit.