TAX CREDITS GROUP, LLC

CASE STUDY

TCG Helps Bank Secure Over 10 Million Dollars in R&D Tax Credits

SITUATION

A California bank had been investing heavily in software development projects that were intended to benefit both its customers, as well as its own internal business operations ("internal-use").

The internal-use software development projects that were undertaken by the bank were intended to improve internal workflows and automation which would ultimately lead to improvements in speed and reductions in cost. Due to the unique operations of the bank, a commercially available software solution did not exist which could be purchased to accomplish the needs of the bank. Rather, for most projects, the only option the bank had was to develop these solutions from the ground-up. Substantial resources were committed to these projects, and there was no guarantee that the investment of these resources could be recouped within a reasonable timeframe.

The customer-interactive software development projects were undertaken by the bank for a variety of reasons. This included enhancements to a customer dashboard, the development of a mobile banking application, enhancements to security authentications, and necessary compliance updates that were needed due to ever changing regulatory requirements.

ASSESSMENT FINDINGS

Upon meeting with the bank and reviewing activities, TCG learned that the bank had been investing millions of dollars annually in software development activities. This was a substantial investment in the wages of internal resources as well as payments that were being made to 3rd party vendors who were dedicated to these software development projects.

Unfortunately the bank was not aware that the research and development tax credit extended to software development of a financial institution. Further, the bank was not aware that the state of California also offered a research credit that could offset state income tax.

Luckily, due to the requirements of the heavily regulated banking industry, there was extensive recordkeeping in place that could support current and prior year R&D projects.

TCG RECOMMENDATIONS

Based on the assessment, TCG estimated that the bank was not only eligible to submit R&D tax credit claims for the current year, but would also be eligible to submit federal research tax credit claims for the prior 6 years which equated to over $2.3MM dollars, as well as credit claims to the state of California for the prior 6 years which equated to over $2.0MM dollars. However, due to the amount of these anticipated claims, TCG also cautioned the bank that an IRS audit would likely occur.

As such, TCG recommended that a full R&D tax credit study be completed. In this study, TCG would fully examine the banks R&D activities to identify a complete list of qualifying vs. non qualifying customer interactive projects as well as qualifying vs. non qualifying internal use software projects.

Once qualifying projects were identified, TCG would then work to ensure that all Qualifying Research Expenditures (QREs) were being accumulated properly at both the federal and state level, and to ensure the appropriate documentation and supporting project artifacts were secured in support of qualifying projects. Finally, TCG would provide audit representation up to the Appellate level.

OUTCOME

Based on these recommendations, the bank engaged TCG to complete an R&D tax credit study. Pursuant to the study, the bank submitted both federal and state credit claims, and as anticipated, both claims were selected for audit. The federal claims were audited under the IRS's CAP Program and TCG was ultimately able to secure the bank federal credits in the amount of $2MM dollars. Auditors for the State of California followed the IRS determination and allowed all credits claimed. Based on the favorable results of these findings, the bank continued to engage TCG for each of its subsequent credit studies.

To date, TCG has secured over $10 MM in federal and state tax savings for the bank. The audit success rate for these studies has been in excess of 90% in every year.

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