We Built a Free R&D; Tax Credit Estimator. Here Is Exactly How the Math Works.

By Timothy C. Franklin · August 6, 2026 · 5 min read

You put in your numbers. The estimator gave you a figure. Maybe it was $40,000. Maybe it was $180,000. Maybe it was more than you expected and you are not sure whether to believe it.

That reaction is worth paying attention to. Most people who use an estimator accept the output without understanding what produced it. This post is for the ones who want to know.

Here is exactly how the math works.

What Goes Into the Calculation

The estimator asks for four things. How many people in your business do qualifying R&D; work. What they earn. What percentage of their time goes toward qualifying research activities. And whether you have contractor or vendor costs tied to research.

Those inputs produce a single number: your Qualified Research Expenses. Everything else the estimator calculates is a percentage of that number.

What Is a Qualified Research Expense

Under IRC Section 41, a Qualified Research Expense is a cost directly connected to activities that meet the IRS four-part test for qualifying research. Three categories of costs count: wages paid to employees performing or supervising qualifying research, payments to outside contractors for qualifying research, and supplies consumed directly in the research process.

The estimator handles wages and contractors. Here is the math for each.

Wages: Total W-2 wages for R&D; employees multiplied by the percentage of time spent on qualifying activities. Eight engineers each earning $130,000 who spend 75% of their time on qualifying work produces $780,000 in qualifying wage QREs.

Contractors: The IRS applies a 65% limitation to contractor costs. If you paid a contractor $100,000 for qualifying R&D; work, only $65,000 counts as a QRE. The estimator applies this automatically.

> *Wage QREs = Employees x Avg Salary x % Time on R&D;* | *Contractor QREs = Contractor Spend x 65%* | *Total QREs = Wage QREs + Contractor QREs*

The Math: How the Credit Is Calculated

The R&D; Tax Credit is governed by IRC Section 41. There are two approved calculation methods: the Regular Credit method and the Alternative Simplified Credit method, known as ASC. Most businesses use ASC because it requires less historical data. The estimator uses ASC.

Step one: calculate your current year QREs. Step two: determine your average QREs for the prior three tax years. Step three: the credit equals 14% of the amount by which your current year QREs exceed 50% of that three-year average.

If your current year QREs are $800,000 and your average QREs over the prior three years were $600,000, then 50% of the three-year average is $300,000. Your credit is 14% of $500,000 — the amount your current QREs exceed that base. That is a $70,000 credit.

The formula rewards growth. The faster your qualifying R&D; spend has grown, the larger the effective credit rate.

WHAT IF YOU HAVE NO PRIOR-YEAR DATA

If you have never filed the R&D; credit before and have no prior-year QRE records, the IRS provides a startup rate: 6% of current-year QREs. No three-year average required. No historical data needed. This is the floor. It is the minimum credit available to any business with qualifying QREs. The estimator uses this as the conservative estimate for all filers.

Why We Show Two Numbers

Conservative Estimate — 6%	**High-End Estimate — 10%**
• The IRS startup rate • Applied to 100% of total QREs • Available to all filers, including first-time claimants • This is the floor	• Estimated effective rate for businesses with established R&D; history • Applied when prior claims exist • Assumes meaningful QRE growth over prior years • Full ASC formula calculates this precisely

The conservative number (6%) is the credit you can count on if you are filing for the first time and have no prior-year QRE data. It will not shrink. Every business with qualifying QREs is entitled to at minimum a 6% credit on those expenses.

The high-end number (10%) reflects what the full ASC formula can produce for a business whose qualifying R&D; spend has grown. The actual number depends on your specific prior-year QREs. A formal study would calculate this precisely. The estimator uses 10% as a grounded high-end for businesses with history.

The truth is somewhere in that range. A full analysis tells you exactly where.

The Retroactive Section

The three-year retroactive potential shown in the estimator is the annual credit multiplied by three. That reflects the IRS rule: amended returns are generally allowed up to three years back. If your business has been doing qualifying work and never claimed the credit, those years are not closed.

Three things to understand about the retroactive number. First, what you can actually recover depends on what QREs you can document for each prior year. Contemporaneous records matter. Second, the estimator applies your current inputs to all three prior years as a proxy. In reality, your qualifying wages may have been different in prior years. The actual retroactive credit is calculated year by year in a formal study. Third, retroactive claims require filing an amended return.

> *Three years of unclaimed credits is three years of money that already belongs to you sitting in returns that were never amended.*

What the Estimator Cannot Tell You

The estimator gives you a number. It does not give you a credit. To claim the R&D; credit, the IRS requires a formal study. That study applies the four-part test to your specific activities. It reviews which projects qualify and which do not. It maps wages and contractor costs to qualifying work.

Not all R&D; activity qualifies. The IRS applies a four-part test: the work must have a permitted purpose, be technological in nature, address genuine technical uncertainty, and involve a process of experimentation. Work that does not pass all four parts does not produce QREs, regardless of what it cost.

The estimator assumes that your employees are spending the percentage of time you entered on qualifying activities. A formal study verifies that assumption. In most cases it holds up. In some cases certain projects get excluded.

The estimator tells you whether pursuing this credit is worth your time. The study is what you actually file. For most businesses that have never claimed the credit, the estimator number is not a ceiling. It is a starting point.

What to Do With the Number

Put it next to what you paid the IRS last year. That comparison tells you more than the number alone.

If the credit is significant relative to your tax bill, the next step is a free eligibility assessment. We review your qualifying activities, confirm the credit is supportable, and give you a realistic range before any study begins. That assessment costs nothing.

If the number surprised you, that is worth sitting with. Most businesses that are doing qualifying work have been doing it for years without anyone putting this credit in front of them. The estimator does not create an opportunity. It reveals one that was already there.

IRS OFFICIAL REFERENCE

IRC Section 41 — Credit for Increasing Research Activities (IRS.gov)

Official IRS guidance on the R&D; Tax Credit, qualifying expenses, and the Alternative Simplified Credit method.

See What Your R&D; Credit Is Worth.

Enter your employee count, salaries, and R&D; activity. Get your estimated annual credit and three-year retroactive potential in 60 seconds. No contact info required.

triplestarstrategy.com/rd-analysis