

← [Back to Blog](#)

[Home](#) / [Blog](#) / [R&D Tax Credits](#)

R&D TAX CREDITS

The R&D Tax Credit Isn't Just for Tech Companies. Here Is Who Actually Qualifies.

By Timothy C. Franklin • May 12, 2026 • 8 min read

The Assumption That Is Costing You Money

When most business owners hear the words "R&D tax credit," they picture a startup in San Francisco burning through venture capital on software nobody has built before. They picture lab coats and whiteboards and people with PhDs arguing about code.

They do not picture themselves.

And that assumption, that quiet belief that this credit was designed for someone else, is one of the most expensive mistakes in the American tax code. Because the R&D tax credit was not designed for Silicon Valley. It was designed for any business that is trying to solve a problem it has not solved before.

That is a much longer list than most people think.

What the R&D Tax Credit Actually Is

The Research and Development tax credit lives in Section 41 of the Internal Revenue Code. It has been part of the federal tax system since 1981. That is the Reagan era. Forty-five years ago. Congress created it because they wanted to incentivize American businesses to do the kind of work that keeps America on the cutting edge. Developing new products. Improving existing processes. Figuring out things that have not been figured out yet.

It is not a deduction. That distinction matters more than most people realize.

A deduction reduces your taxable income. If you are in a 37 percent tax bracket, a \$10,000 deduction saves you \$3,700. That is useful. But a credit is different. A credit reduces your actual tax bill, dollar for dollar. A \$10,000 credit saves you \$10,000. No bracket math. No percentage. The full amount, straight off what you owe.

TAX DEDUCTION

\$3,700

What a \$10,000 deduction saves you at a 37% tax rate. You reduce income, then apply your bracket.

TAX CREDIT

\$10,000

What a \$10,000 credit saves you. Dollar for dollar off your actual tax bill. No bracket math involved.

For businesses that qualify, this credit can be worth hundreds of thousands of dollars annually. And unlike a lot of tax strategies, it can be claimed retroactively. If your business has been doing qualifying work for the last three years and you have never filed for this credit, those years are not lost. You can go back and claim them.

The Four-Part Test

The IRS uses four criteria to determine whether your activities qualify as research and development. The test sounds technical. In practice, it catches far more businesses than most people expect.

PART 01

Permitted Purpose

The activity must be aimed at developing or improving a product, process, software, technique, formula, or invention. It does not have to be sold. Internal tools and processes count.

PART 02

Technological in Nature

The work must rely on principles of engineering, physical science, biological science, or computer science. You do not need a lab. You need a methodology.

PART 03

Elimination of Uncertainty

There must be a genuine question at the start. You did not know whether the design would work, whether the process would be feasible, or whether the approach would succeed.

PART 04

Process of Experimentation

You evaluated alternatives. You tested. You iterated. You did not just implement something off a shelf. You figured something out through a process.

Read that again. None of those four criteria say anything about technology companies. None of them say anything about patents or publications or scientific breakthroughs.

They say: did you try to improve something, and did you have to figure it out along the way?

Most businesses that are doing any kind of meaningful work are doing exactly that.

Who Actually Qualifies

Here is a partial list of industries we see qualifying for this credit regularly. Not theoretically. Regularly.



Manufacturers



Breweries & Distilleries



Contractors & Builders



Agriculture & Food Producers



Engineering Firms



Architecture Firms



Life Sciences & Medical



Aerospace & Defense



Software Development

A manufacturer developing a new product line. A contractor designing a custom structural solution for a project no one has built before. A brewery refining a fermentation process. A food producer formulating a new product. An engineering firm working through a design problem that does not have an off-the-shelf answer.

A real estate company that wants to streamline its internal processes and deliver a more repeatable, more stable product to its customers. A sales organization building better systems, implementing better metrics, using technology to revolutionize the way their industry operates.

That is research and development. That is what it looks like in the real world. Businesses that refuse to accept the way things have always been done. Companies that push. Leaders who are trying to figure out something better.

That is the American way. And the tax code has been rewarding it for 45 years.

All of them qualify. All of them are doing exactly what Section 41 was written to incentivize.

The question is not whether you do research and development. The question is whether you recognize it when you are doing it.

What Expenses Actually Count

The credit is calculated based on what the IRS calls Qualified Research Expenses. Three categories of costs can be included.

First, wages. Any employee who spends time on qualifying research activities can have a portion of their wages counted. This is almost always the largest category. The engineers on your floor. The production team testing a new process. The developers building something custom. Their time has value that the tax code recognizes.

Second, supplies. Materials consumed during the research process. Prototypes. Test batches. Materials used in trials that did not end up in the final product. All of it can count.

Third, contract research. If you hire outside contractors to do qualifying work, 65 percent of what you pay them can be included in your qualified expenses.

The credit itself is typically calculated at 20 percent of qualified expenses above a base amount, or under the Alternative Simplified Credit method, 14 percent of expenses that exceed 50 percent of your average qualified spending over the prior three years. If you have no prior qualifying expenses, the rate is 6 percent of your current year spend.

The math varies by business. But the number is almost always larger than the business owner expected.

Here is the number that should bother you. Approximately \$15 billion in R&D tax credits are claimed in the United States every year. That sounds like a lot. It is not. Experts estimate that another \$7 to \$10 billion in legitimate credits go unclaimed annually, left on the table by businesses that qualified and simply never filed. That is real money. Billions of dollars that Congress set aside specifically to reward American innovation, sitting untouched because nobody told the right people it was there.

The businesses leaving it behind are not failing businesses. They are busy businesses. Businesses with good CPAs who are focused on filing accurate returns, not hunting for specialized credits outside their normal scope. The credit does not disappear because you missed it. But it also does not appear automatically.

\$7-10B

In legitimate R&D credits left unclaimed every single year

Businesses that qualified, did the work, and never filed. The credit does not come to you. You have to go get it.

Why Your CPA Has Not Brought This Up

This is the part of the conversation that surprises people the most.

Your CPA is not holding out on you. They are not being negligent. The R&D tax credit requires a specialized study, detailed documentation of qualifying activities, and a level of analysis that goes well beyond standard tax preparation. Most CPAs are excellent at what they do. This particular credit is simply outside the scope of what a standard engagement covers.

The credit is opt-in. That is the critical word. If you do not file for it, you do not get it. And nobody files for it on your behalf by default.

We work alongside your existing CPA. We do the study. We document the qualifying activities. We prepare the credit claim. Your CPA files it. Nobody steps on anybody's toes. You just get a significantly lower tax bill.

But we have to be honest with you about something. There are no shortcuts in this process. Claiming the R&D tax credit requires real documentation. Payroll ledgers.

Time allocations. Project records. Receipts for qualifying supplies. A clear trail that connects your activities to the four-part test. We will guide you through every step of it. We have done this many times. But your business has work to do. There will be a lift on your end. We will make it as efficient as possible, and we promise the return is worth it. But we will never pretend it is effortless, because it is not.

The businesses that go through the process are glad they did. Every single time.

The First Step

We start with a free analysis. We look at what your business does, what your team spends time on, and whether your activities pass the four-part test. If they do not, we tell you. We have turned away engagements before, and we will do it again. There is no value in claiming a credit you do not legitimately qualify for.

But if you do qualify, and far more businesses do than realize it, the conversation gets interesting very quickly.

Most of our R&D clients are surprised by two things. The first is that they qualify at all. The second is how much is on the table once we start looking. If you own real estate in addition to operating a business, **cost segregation may apply on that side as well.** The two strategies are not mutually exclusive. For a full picture of what you should be asking every year, **read our five-question framework.**



IRS OFFICIAL REFERENCE

[Research and Development Tax Credit](#) →

IRC Section 41: IRS.gov official guidance

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Find Out If You Qualify

Our R&D analysis tool is launching Q4 2026. In the meantime, reach out directly and we will walk through your business activities personally.

[Get In Touch: Coming Q4 2026](#)

R&D Analysis Tool

Our dedicated R&D analyzer is launching Q4 2026. Questions now? Reach out directly.

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Key Facts

The R&D credit is a **dollar-for-dollar** reduction in your tax bill, not just a deduction.

It can be claimed **retroactively** for open tax years, typically up to three years back.

Qualifying expenses include **wages, supplies, and contract research**.

In This Article

The Expensive Assumption

What the Credit Actually Is

The Four-Part Test

Who Actually Qualifies

What Expenses Count

Why Your CPA Has Not Mentioned It

The First Step

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