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What Is the R&D Tax Credit?

By Timothy C. Franklin • October 13, 2026 • 5 min read

I was sitting in Starbucks a few days ago, deep in a conversation with a colleague. The kind of conversation that probably made the people around us uncomfortable. We were talking about taxes. Not in a boring way. In a passionate, animated way. The kind that comes out when you believe the system is broken not by malice but by ignorance, and that the people getting hurt most are the ones working the hardest. We went through all of it. The inefficiency. The waste. The way government, any government, turns good money into bad outcomes. At some point I mentioned the R&D tax credit.

The man at the next table turned around. He had been listening for a while. "I'm sorry," he said. "I have to ask. What on earth do you do?"

I told him. We talked for twenty minutes. He owned several businesses. By the time we were done, he was handing me his card and telling me to text him. He had never heard of the R&D tax credit. His businesses had likely been qualifying for years. That is how this works. The credit does not find you. You have to know to look.

The Short Answer

The Research and Development tax credit is a federal tax credit under Section 41 of the Internal Revenue Code. It is a dollar-for-dollar reduction in your federal tax bill for money your business spent on qualifying research and development activities.

That sentence has a lot in it. Let us slow down and look at the pieces.

Not a Deduction. A Credit.

This distinction matters more than most people realize, so we must not rush past it.

A deduction reduces your taxable income. If you are in the 37 percent tax bracket and you take a \$100,000 deduction, you save \$37,000 in taxes. The deduction is worth a fraction of its face value.

A credit reduces your actual tax bill. Dollar for dollar. If you qualify for \$80,000 in R&D credits, you owe \$80,000 less in federal taxes. Not \$80,000 less in taxable income. \$80,000 less in taxes. The credit is worth exactly its face value.

Congress does not write many dollar-for-dollar credits into the tax code. The R&D tax credit is one of them. That is why it matters.

What Most People Think R&D Means

White coats. Laboratories. Scientists with PhDs and equipment budgets in the millions. Pharmaceutical companies testing compounds. Defense contractors building classified technology. That is the image most business owners carry when they hear the words "research and development."

That is not what the law says.

The law says: did your business develop or improve a product, process, or technique? Did you have genuine uncertainty about how to do it? Did you work through that uncertainty in a systematic way?

If the answer is yes — that is research and development under Section 41. The industry does not matter. The job title does not matter. The size of your lab budget does not matter. The activity matters.

The Four-Part Test

The IRS uses four criteria to determine whether an activity qualifies as research. In plain English, here is what each one means:

- **Permitted purpose.** You were trying to develop or improve a product, process, technique, formula, or software. Not a management system. Not a marketing strategy. Something technical.
- **Technological in nature.** The work relied on engineering, physical science, biological science, or computer science. You used technical knowledge to do it.
- **Elimination of uncertainty.** At the start of the activity, you did not know if your approach would work. There was a real question. You were not following a known recipe.
- **Process of experimentation.** You evaluated alternatives. You tested. You iterated. You figured something out through a process of trial and evaluation — not through pure judgment or experience alone.

None of those four criteria say anything about laboratories or advanced degrees. They say: did you try to improve something technical, and did you have to figure it out along the way?

Most businesses doing real technical work are doing exactly that. Every day. In ways they have never thought to document.

Who Actually Qualifies

Manufacturers developing new products or improving existing ones. Construction and engineering firms solving site-specific technical problems. Software companies building proprietary tools, platforms, or algorithms. Food and beverage companies creating new formulas or improving production processes. Agricultural businesses developing new growing techniques. Healthcare companies developing new devices or clinical processes.

The common thread is not the industry. The common thread is this: your team spent time and money trying to solve a technical problem that did not have an obvious answer.

If you have engineers, developers, scientists, or technicians on payroll — and if any of their time is spent on work that passes the four-part test — you likely have qualifying research expenses. And qualifying research expenses generate a credit.

\$15B

R&D credits claimed annually in the U.S.

\$10B

Estimated credits left unclaimed each year

3 yrs

Retroactive look-back available via amended return

What the Credit Is Worth

The credit is calculated on your qualified research expenses — primarily the wages paid to employees for time spent on qualifying activities, plus a portion of supply costs and certain contractor payments.

Under the Alternative Simplified Credit method, the credit runs at 14 percent of qualified research expenses above a base amount. For a business with a meaningful technical payroll, that number adds up quickly. A company with \$1 million in qualifying wages could see an annual credit in the range of \$80,000 to \$100,000.

Not a deduction. A credit. Off the tax bill.

IRS REFERENCE

The Research and Development tax credit is governed by IRC Section 41. It was made permanent by the Protecting Americans from Tax Hikes (PATH) Act of 2015. Startup companies with less than \$5 million in gross receipts may apply up to \$250,000 of the credit against payroll taxes rather than income taxes, making the credit accessible even before a company reaches profitability.

Three Years Back

Most businesses that find out about the R&D tax credit ask the same question first: what about last year?

The IRS allows retroactive claims for up to three years through amended returns. If your business has been doing qualifying research for years without claiming the credit, those years are not gone. The credits are waiting. The filing is the only thing standing between you and them.

For a business with a meaningful technical team, the retroactive potential often runs into six figures. Sometimes well into six figures. That is three years of credits that were earned, never claimed, and still available.

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The First Step

The credit is opt-in. Congress wrote it into law. The IRS makes it available. But nobody files it for you by default. If you do not claim it, you do not receive it. That is why \$10 billion in legitimate credits go unclaimed every year.

The first step is a free analysis. We look at what your business does, how your team spends its time, and whether your activities pass the four-part test. If they do not qualify, we tell you plainly. If they do, we tell you what it is worth — annually and retroactively — before you commit to anything.

The analysis is free. The estimate is instant. The credit, if you qualify, is real.

Find Out What Your Credit Is Worth

Get your free R&D credit estimate in 60 seconds. No contact info required. See your annual credit and three-year retroactive potential instantly.

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Find out what your R&D credit is worth. Free estimate. No contact info required.

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