

## Tax Notes

# R&D Tax Credit Opportunity for COVID-19 Safety Protocols and Equipment

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In light of the pandemic, companies that previously had no Federal Research and Development Tax Credit (Research Credit) opportunity may be eligible to capture the credit on their 2020 or 2021 returns. Specifically, companies in the hotel, catering, retail, and building management industries that were impacted by the COVID-19 and have designed or developed safety processes, software and technologies may now be eligible to capture the Research Credit as well as related state research credits.

## Potential Qualifying Expenses

In the hotel industry, costs related to designing and developing unique safety procedures and/or developing improved contactless entry, check-in, and check-out protocols may be qualified research expenses. Designing new and improved technology for implementing training protocols or new technology and software for contactless curbside pick-up may be qualifying research in the restaurant/catering industry. In the retail or building management industries, developing new methods to clean and sanitize the common areas and offices may also qualify.

Companies in these industries have spent significant amounts in improving health and safety business components and should explore whether they can capture the Research Credit. Further, companies that have shifted from manufacturing their traditional products to create personal protective equipment (PPE), such as face masks and safety products (including creating disinfectant products), should consider exploring whether they can capture R&D expenses for Research Credit purposes as well.

## Claiming the Credit

Through the 2021 tax year, the Research Credit benefit increased by more than 20%. We have noted that the credit has never been [more beneficial](#). It is the opportune time for companies that have developed COVID-19 processes, hardware and software. IRC Section 39 provides a one-year carryback and 20-year carry forward for the Research Credit. A company with losses in 2020 that can take advantage of the credit can take the credit against taxes paid in the 2019 tax year. Alternatively, the credit can be used in the next 20 years.

## Next Steps

Companies that believe they have research expenditures due to safety procedures implemented for COVID-19 should:

- Speak with a Research Credit specialist. A short conversation could lead you in the right direction.
- If you are eligible for the credit, estimate the potential benefits of capturing the credit for all years that are open.
- If the benefit is significant, and the cost and time commitment worthwhile, work with your Research Credit specialist to conduct a research credit study to capture all of the eligible qualifying expenses, ensure that the research projects qualify, and compile all proper documentation including project narratives and contemporaneous written information.

## Contact Us

If you have any questions or need assistance regarding whether your expenses qualify for the research and development credit, contact your client partner or the following:

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