



**BOOTH 1024**

# **2026 SOCMA Show – R&D Tax Credits: What You Need to Know**

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**How the Research and Development Tax Credit Can Benefit Your Company**

**Presented by:**

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# Agenda

- SOCMA Chemical Client Examples
- R&D Tax Credit Myths
- What Qualifies for R&D Tax Credit?
- The Four-Part Test
- Chemical Industry Examples of Qualifying Activities
- Three Buckets of Expenses
- Section 174 Updates
- Takeaway
- Additional Advisory Services
- Q & A

# NJ Based Middle Market Specialty Chemicals Company

- This middle market specialty chemicals company is an exclusive distributor of select Bromine-based compounds. They have established a world-wide reputation for manufacturing, distribution, product development and marketing of a wide range of products for the pharmaceutical, nutritional, personal-care, food and specialty chemical industries.
- They are a SOCMA member and have been a R&D client of Anchin's since 2008
- Anchin has been able to realize over \$2 million in federal and New Jersey state R&D tax credits from 2008-2024 for the company
- *“We have been a client of Anchin's for 18 years, and throughout this time, they have consistently delivered exceptional results. Their team has not only helped us maximize our R&D Tax Credit benefits but also provided insightful guidance that ensures we fully leverage available opportunities. Their expertise, responsiveness, and strategic approach make them a trusted partner in navigating complex tax credits year after year.” – CEO*

# Additional SOCMA Client Example

- Industrial chemicals and polymers manufacturer with facilities in PA and TX and SOCMA member
- Prior to Anchin's involvement, they did not believe they qualified for any R&D Tax Credits
- Through a detailed R&D Tax Credit Study, we identified qualifying activities
- In the first year of the study, we secured approximately \$100,000 in federal credits and an additional \$60,000 in Pennsylvania and Texas state credits
- Now in the third year of the engagement, the company's annual benefit has grown to nearly \$500,000 in federal credits and approximately \$200,000 in combined state credits
- What began as a company that believed it did not qualify has evolved into a significant, recurring tax savings opportunity supporting continued innovation and growth

# Opportunity and Benefits

- Tax Credit is much larger than a Tax Deduction – \$1 for \$1 Reduction of Tax Liabilities
- R&D Tax Credit Lowers a Company's Effective Tax Rate
- Federal R&D Tax Credits May Be Carried Back 1 Year and Forward for Up To 20 Years
- Additional State R&D Tax Credits Are Available in Over 30 States, mostly with similar calculation methodologies as the Federal Credit
- Innovation Increases a Company's Competitiveness, Capabilities and Capacity
- R&D Tax Credits Continuously Help Fund Innovation

# R&D Tax Credit – Opportunities Overview

- **Federal Benefit** - The R&D Tax Credit also known as the Research and Experimentation (R&E) tax credit, is a federal benefit that provides companies dollar-for-dollar cash savings for performing activities related to the development, design, or improvement of products, processes, formulas, or software.
- **State Benefit** - Many states offer the R&D tax credit benefits, which generally follow the federal regulations and IRS guidance on what constitutes Qualified Research expenditures (QREs).
- **Payroll Tax Liability Offset** – A qualified taxpayer may elect to offset up to \$500,000 in payroll tax liability.
- **Industry Specific Credit (Orphan Drug Credit)** - The credit is a federal tax credit that gives companies incentives to develop medications / treatments for rare diseases that affect small populations. The credit is designed to help pharmaceutical companies lower their developmental costs.

# R&D Tax Credit Myths



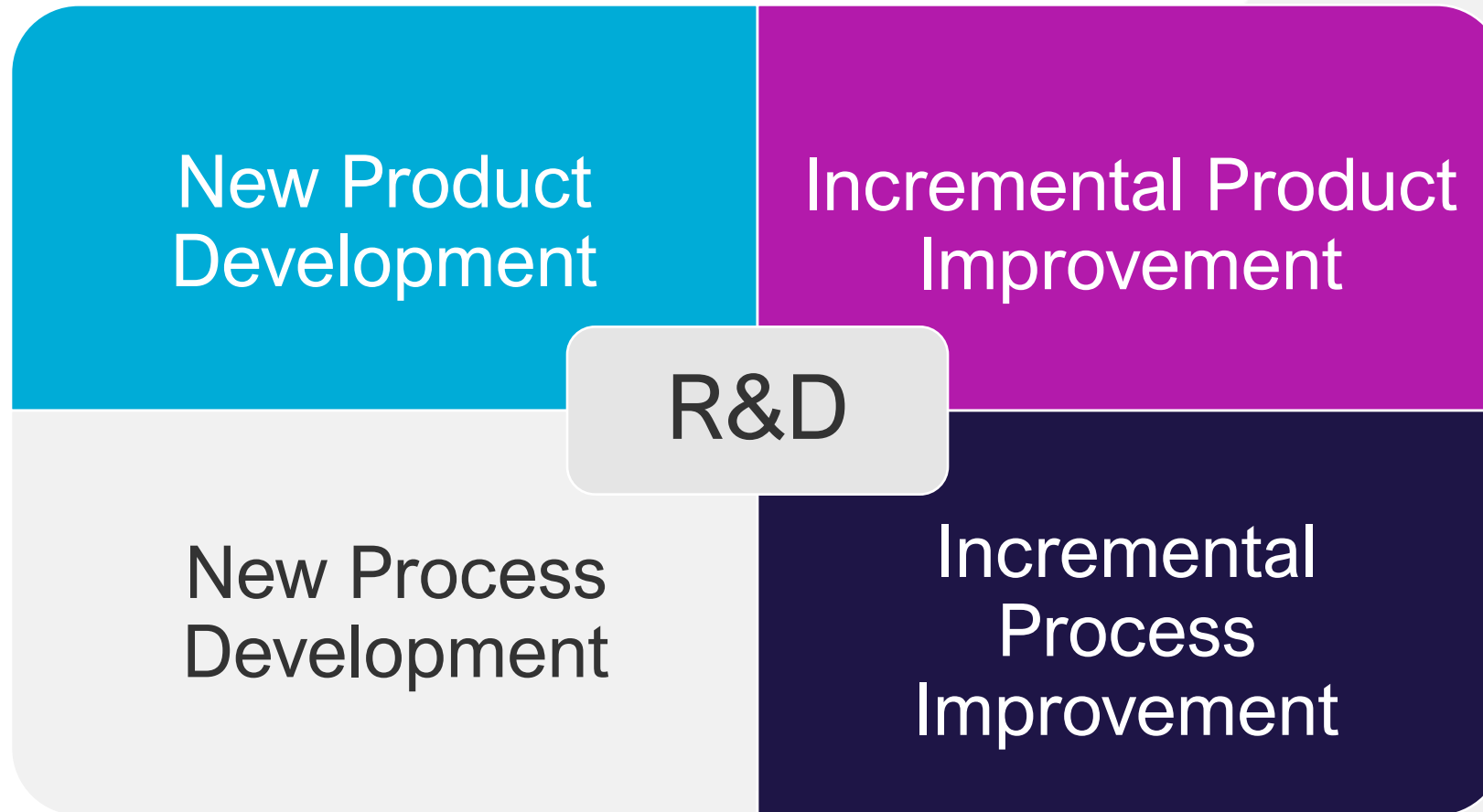
# 10 Myths Company's Believe Disqualifies Them From the R&D Tax Credit

1. R&D must be revolutionary
2. R&D requires labs and scientists
3. R&D credits won't help without profits
4. The research deduction undercuts the R&D credit's value
5. The R&D credit is only for the large
6. No R&D credit without success
7. No R&D credit where expenses are flat
8. R&D can't cut state tax liabilities
9. Tax reform may render the R&D credit unavailable
10. The R&D tax credit doesn't apply to my industry

# IRC § 41: The Four-Part Test



# Four Broad Types of Projects - Permitted Purpose



**NEW OR INCREMENTAL TO THE COMPANY, NOT TO THE INDUSTRY!!!**

# What is Qualified Research? The “Four-Part Test”

## 1. Permitted Purpose

The activity must relate to a new or improved business component's:

- Functionality
- Performance
- Reliability **OR**
- Quality

## 3. Technological in Nature

The activity performed must rely on principles of a hard science:

- Engineering
- Biology
- Physics **OR**
- Computer Science

## 2. Technical Uncertainty at the Outset

Information available to the taxpayer cannot establish either of the following:

- Capability of developing the business component or methods and techniques required for development **OR**
- Optimal design of the business component, such as most appropriate techniques, methods, materials, or technology to be used

## 4. Process of Experimentation

Substantially all the qualified activities must be intended to eliminate technical uncertainty through:

- Evaluation of Alternatives
- Testing of Hypotheses through modeling, experimentation, trial and error
- Refining or discarding of the hypotheses
- Design iterations, enhancements, optimization of performance

# R&D Tax Credit - Window of Opportunity

## Qualifying Product Developments



## Qualifying Process Developments

- 6  $\sigma$
- Lean Manufacturing
- TQM/JIT
- Automation/Robotics
- Kaizen Initiatives

# Examples of Qualifying Activities

# Chemical Industry Examples

- Development of new or improved products
- Improvement of product yield or purity
- Sourcing of raw materials and other inputs
- Implementation of Six Sigma and Kaizan initiatives to optimize manufacturing processes and methods
- Managing and reducing pollution and optimizing the use of energy and other non-renewable resources
- Obtaining ISO certifications
- Compliance with federal and state regulations such as the Toxic Substances Control Act and Chemical Facility Anti-Terrorism Standards
- Scale up

# Chemical Industry Examples

- Production scalability issues
  - Vessel size and material composition, pH, temp, catalysts
  - System size changes
    - Proportion of surface area to mass causing distributions to laminar and turbulent flow
    - Reaction kinetics
    - Fluid mechanics
    - Thermodynamics
- Pilot batches
- Safety issues

# IRC § 41: Drivers of the Calculation



# Drivers of the Calculation – 3 Buckets of Expenses

## 1. Qualified Employee W-2 Wages

### Who Qualifies?

**One Step Up and One Step Down from Project Research and Experimentation**

### Supervision of R&D

- Department Heads, Strategists, Senior Engineers

### Direct R&D = Project Research and Experimentation

- Chemists, Engineers, Software Developers, Scientists, The Most Technical Personnel

### Support of R&D

- Data Gathering, Report Writing/Analysis, Determination of Specs & Requirements, Quality Assurance Testing, Equipment Modifications/Improvements

# Drivers of the Calculation – 3 Buckets of Expenses

## 2. Qualified R&D Supply Expenses

### Includes:

- Materials Consumed in Experimentation for New Product/Process Developments
- Materials Used for Building Product Prototypes
- Materials Used for Generating Samples during New Product Developments
- Materials Consumed in Trial Runs for New Products

### Excludes:

- Capitalized Equipment
- Overhead (electricity, heat, insurance, etc.)

# Drivers of the Calculation – 3 Buckets of Expenses

## 3. Qualified R&D Contract Research Expenses\*

(Outside Consultants/Contractors Hired on Behalf of the Taxpayer)

- Research or Development Activities Must Take Place in the USA
- Activities Must Qualify Per IRC § 41
- Taxpayer Must Be Liable for Payment Regardless of Outcome
- Taxpayer Must Retain Substantial Rights to Research

*\*Allowed at 65% of qualifying expense with some exceptions*

# Section 174 Updates



# OBBB Restores Full Expensing of Domestic R&E

Signed on July 4, 2025, effective for tax years after 12/31/2024.

Restores immediate deduction of domestic R&E under new §174A. Foreign R&E remains capitalized and amortized over 15 years.

Replaces TCJA rules (2017), which required 5-year amortization (domestic).

Reflects a policy focus on supporting U.S.-based R&D.

# Restoration of Deduction for U.S.-Based R&D

- **Full expensing of domestic R&E costs restored under §174A**
- Applies to tax years beginning **after** Dec. 31, 2024
- Foreign R&E costs **still** amortized over 15 years
- **Optional amortization:** 60+ months or 10-year write-off
- **Small business retroactive election if average revenue less than \$31 million**
- Election to **amortize** previously capitalized domestic R&E costs in 2025 or **split** ratably between 2025 and 2026

*It's important to carefully analyze each planning option for your situation.*

# Takeaway



# Takeaway to think about: Is my company eligible for the R&D Tax Credit?

1. Are you developing new or improved products, processes, techniques, formulas, inventions or software?
2. Do you have a dedicated R&D department and/or a staff of engineers, software developers or scientists?
3. Do you have expenditures on test materials, prototyping, tooling and non-depreciable equipment, for R&D purposes?
4. Do you spend money on outside vendors assisting with your R&D / manufacturing efforts?
5. Lastly: Industry, Size, Profitability

# Additional Advisory Services



# Anchin's Advisory Services

- Anchin Finance Executive Network
- Business Process Improvement (Operational Reviews)
- Cost Segregation
- Family Office
- Forensic Accounting
- Insurance
- International Tax
- Litigation Support
- Outsourced Accounting
- R&D Tax Credits
- Regulatory Compliance & Investigations
- State & Local Tax
- Tax Controversy
- Valuation
- Wealth Management



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**Come visit us at booth 1024  
and join us for our webinar on  
Tuesday, March 17<sup>th</sup>!**

- ▶ Member of the Firm's Tax Credits & Incentives Group
- ▶ Practice Leader of the R&D Tax Credits, Life Sciences, Chemical and Energy Groups
- ▶ 25+ years of experience with national public accounting and management consulting firms focusing on federal tax consulting issues and assisting senior executives with strategy development and implementation
- ▶ National subject matter expert for Chemical Industry while at Big 4 firm