

CORPORATE TAX & ACCOUNTING

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Now Every Business is a Software Business

Software development is a strong candidate for federal R&D tax credits. Many aspects of software development are tax credit eligible; these include preliminary scoping, prototyping, core build, testing, evolution, as well as integration with various platforms and operating systems. In addition, many companies are adding software-based components to their traditional product offerings. As more companies develop such features, more companies achieve R&D tax credit eligibility.



Every Company is a Software Company

Companies outside the traditional high-tech industry are becoming involved in software development. The November 2011 Forbes article, "Now Every Company is a Software Company" shows how some of America's most venerable companies are turning to software to enhance their product lines and find new growth.

Ford Motor Company has equipped vehicles with WiFi receivers and other technological features guided by software – changing an automobile from a mere Point A to Point B transportation asset to an entertainment source. Similarly, Honeywell's Smart Thermostat is operated by highly modernized software that is one of many technologies changing the way people can control home systems. Google's acquisition of Nest, a home monitoring device company, is also indicative of the desire to optimize data in the home environment, including voice command software.

Booz & Company

In 2013, the Booz & Company annual study of R&D rated software and internet sector R&D as the fastest growing R&D category at 22.1% of all R&D. This growth is indicative of a major shift towards data driven solutions within global industry. If this shift continues as projected, the potential for R&D tax credits within the software industry will increase greatly.

Mobile Applications

The dominant presence of smartphones greatly expands the scope of mobile phone software development. Mobile application development has emerged as a leading category in the software industry, with enterprise applications earning more for developers than consumer applications. Developing this unique software for both iOS and Android platforms often requires extensive R&D efforts, making app developers prime candidates for an R&D tax credit.

Start-Ups

Early stage start-ups are often highly R&D-intensive. Because the credit awards increased research activities; the increase in R&D expenses in start-ups can correlate to large tax credits. Because credits can be carried forward 20 years, establishing R&D tax accounting practices early often pays large dividends down the road. This is especially true for start-ups who see acquisition as their eventual end-game.

Conclusion

More companies are following the IBM model of using data to provide solutions to a wide array of problems. Even IBM has indicated their goal is to develop more software related to social media, cloud computing and mobile phones. Both software companies and companies delving into software-based features and solutions should examine their R&D tax credit eligibility.