

Software Developer

Client Profile

McGuire Sponsel was engaged by a software developer with annual revenue of \$24 million after the IRS audited a tax study performed by another service provider seeking tax credits for 2004 through 2006. The IRS agreed to accept only 40 percent of the company's tax claims. That's when the company's CPA firm contacted McGuire Sponsel.

The Challenge

The company had a previous study conducted by another firm after which the IRS refused 60 percent of what the company attempted to claim due to a lack of documentation. The company contracted McGuire Sponsel to offer an opinion on the original claim. McGuire Sponsel further assessed what was originally claimed to build a better case for the company and discovered that while some items refused by the IRS were valid, others were not. McGuire Sponsel subsequently created a successful case and maximized the company's claim with the IRS.

The company faced some distinct challenges, including funding issues between cost-plus contracts, firm-fixed price contracts and internal research and development projects. The company also had substantial rights issues regarding the technology they were developing.

Study Results

McGuire Sponsel used a hybrid of both project and activities approaches to meet IRS requirements, identify \$3 million of qualified expenses on an annual basis and ultimately secure \$160,000 in tax credits for the company.

As with any R&E claim, a taxpayer must bear the project's economic risk and maintain shared rights to the technology.

