KPMG

R&D Credit for Blockchain

Research Credit Services

Are you claiming potentially available R&D credits?

U.S. research and development (R&D) tax credits are generous incentives of up to 15.8 percent for eligible incremental development spending, resulting in potentially millions of dollars in tax savings.

What is Blockchain?

Blockchain, or distributed ledger technology (DLT), is an emerging digital technology that represents a foundational shift in record keeping. Blockchain is a way of ordering and verifying transactions in a distributed ledger, where a peer-to-peer network of computers maintains and validates a record of consensus of transactions with a cryptographic audit trail.

Blockchain industries

Financial Services, Health, Insurance, Gaming, IOT, Energy, Real Estate, Automobile, Manufacturing, Supply Chain Services, Information Technology, Transportation, Telecommunications, Retail, Media and Broadcasting, Dining, Cosmetics, Apparel, Education, etc.

Blockchain development activities

1. **Platform development** – Developing blockchain platforms and/or applications that integrate with blockchain platforms that provide a new feature or functionality, or improve existing functionality, performance, reliability, or quality.

2. **Smart contracts** – Developing smart contracts (a computerized transaction protocol that executes the terms of a contract) to perform automation of digital contracts to facilitate, verify, or enforce the negotiation or performance of a contract.

3. **Scalable and efficient application** – Designing and implementing blockchain applications and architecture that can manage/process individual processing nodes in a public blockchain or organizations in a sectorwide blockchain; additionally, designing and developing efficient blockchain networks to execute peer-to-peer transactions.

4. **Network** – Developing the algorithms to manage user privacy and consensus in private/public blockchain networks.

5. **Big data projects/data warehouse and analytics** – Enabling the collection, efficient processing, and analysis of large volumes of data as it is distributed and secured through blockchain technology.

6. **Regulation and governance** – Building blockchain applications that comply with the new and evolving regulations.

7. **Security and privacy** – Enhancing the applications' security built on blockchain via numerous techniques to ensure data's privacy protection and security.

Why now?

Regulatory and legal environment changes	— **Tax reform** – H.R. 1, originally known as the Tax Cuts & Jobs Act of 2017, made many changes that make the R&D credit more attractive than ever.
	– The maximum corporate tax rate was reduced from 35 percent to 21 percent, resulting in an increase in net credit, after factoring in section 280C(c), of 21.5 percent.
	– Corporate alternate minimum tax (AMT) was repealed starting with tax years beginning after December 31, 2017, so corporations no longer have AMT liabilities that the R&D credit cannot offset.
	– The credit can offset taxes related to repatriated income, global intangible low-taxed income, and reduce the effect of base erosion anti-abuse tax (through 2025).
	– Fewer individuals (e.g., partners) may be subject to AMT and may now be able to enjoy the benefit of the R&D credit.
	— **Final internal-use software (IUS) regulations** are more taxpayer favorable and can generally be applied for 2015 forward.
	— **PATH Act** – Tax Reform in 2015 allowed certain start-up companies to use the credit to offset payroll tax.

KPMG's advanced technologies and tools	— **Our cognitive analytic tools enabled by IBM Watson** – KPMG has built the first automated platform that focuses on qualitative review of projects and contracts using IBM Watson's cognitive analysis. The powerful cognitive computing technology of Watson enables KPMG to analyze thousands of documents with speed and accuracy to capture R&D tax credits, while reducing the time required by a company's engineering resources. — **Our quantitative and data and analytic tools** – KPMG utilizes advanced data analytics tools to provide simple, robust, and repeatable methodologies. — **Electronically referenced deliverables** are designed to meet IRS audit requirements to reduce inquiry periods. Electronic referencing makes the report and supporting documentation easy to navigate and has been highly commended by the IRS. — **R&D Exchange** is KPMG's in-house developed software platform that our Research Credit Services practice provides clients. R&D Exchange is a collaboration tool for project management to send and receive surveys, questionnaires, and project documents. Additionally, R&D Exchange provides capabilities to track, remind and report information as well as create dashboards and perform data analytics.

Collaborative KPMG team

KPMG LLP's (KPMG) Research Credit Services tax professionals have experience in helping companies in all industries achieve greater tax efficiency. Our team includes the Washington National Tax (WNT) practice, which constantly monitors changes in laws and policies that can affect both the procedural and technical aspects of tax research credit issues.

KPMG's collaborative approach has resulted in improved claims acceptance by the IRS and its outside adviser, the MITRE Corporation. We attribute these results to our:

— Use of industry-trained IT engineers to facilitate identification of nonobvious R&D.

— Robust but practical approach and proactive engagement with the IRS to reduce time spent on audit.

Examples of our tested processes and credentials include:

With significant industry experience, our engineers facilitate efficient and effective capturing of eligible activities in traditional and non-obvious areas of development. This is translated into concepts that are easily understood by the IRS.

As R&D tax incentives are a global phenomenon, KPMG can assist in identifying potential R&D benefits wherever development occurs around the world.
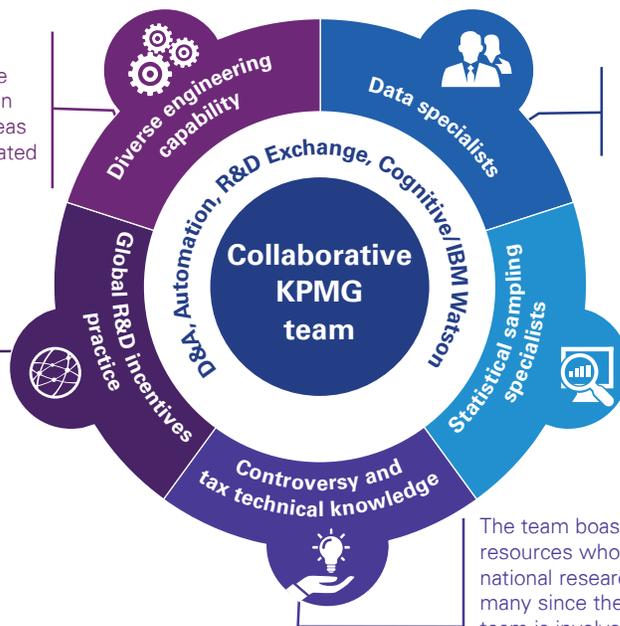
Consult to efficiently capture, cleanse, and analyze data from disparate sources over multiple years to provide tailored solutions that meet the organization's credit needs. Advanced data and analytics technologies used by our specialists are more flexible and secure than commonly used R&D tax credit solutions.

Provide leading sampling approaches in accordance with IRS Rev. Proc. 2011–42 to reduce the number of technical interviews, while providing appropriate levels of confidence.

The team boasts deep tax technical and controversy resources who have been involved in R&D studies, national research, publications, and legislative consulting, many since the inception of the credit. Our controversy team is involved from the outset of the study, which enhances retention rates.

Collaborative KPMG team — Diverse engineering capability, Data specialists, Statistical sampling specialists, Controversy and tax technical knowledge, Global R&D incentives practice, D&A, Automation, R&D Exchange, Cognitive/IBM Watson

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