5 Signs Your Life Sciences Company Should Revisit Its R&D Tax Credit



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Innovation is at the center of the Life Sciences industry. From developing therapeutics and medical devices to improving diagnostics, manufacturing processes, and technology, companies continually invest resources to solve complex scientific and technical challenges.

But is your tax strategy keeping pace?

The Research and Development (R&D) Tax Credit can provide valuable tax benefits to companies conducting qualified research activities. Yet Life Sciences organizations may underestimate what qualifies or continue using an approach that hasn't evolved with the business.

Here are five signs it may be time to take another look:

1. Your Company Has Entered a New Stage of Development

Life Sciences companies can change quickly. A biotech company may advance into preclinical development, a medical device company may move from prototyping to testing and manufacturing, or an organization may expand its pipeline or scale production.

These changes can significantly affect the nature and amount of research being conducted.

2. You're Only Looking at the "R&D Department"

Potentially qualifying research doesn't always happen within a department labeled "R&D."

Depending on the circumstances, activities may include product or formulation development, medical device design and prototyping, diagnostic technology, process improvements, manufacturing and scale-up, software development, and technical testing.

If you're only considering employees formally assigned to R&D, you may be missing part of the picture.

Ask yourself: Where are our teams solving technical problems, testing alternatives, and working through uncertainty?

3. Your Processes, Technology, or Manufacturing Have Changed

Innovation doesn't stop when a product leaves initial development.

Life Sciences companies regularly improve manufacturing processes, scale production, introduce automation, address performance challenges, and develop new technology. These efforts can involve significant technical uncertainty and experimentation.

If you've invested in improving how products are developed, tested, manufactured, or scaled, those activities may warrant a closer look.

4. Your Company Has Grown, but Your R&D Credit Process Hasn't

As Life Sciences companies grow, research activities often become more complex and spread across additional employees, projects, departments, and locations.

If you're approaching the R&D credit the same way you did several years ago, it may be time to reassess both the calculation and the documentation supporting it.

A more proactive process can help identify potentially qualifying activities throughout the year and create a stronger foundation for substantiating the credit.

5. You're Looking at R&D Credits and Section 174 Separately

For companies with significant research expenditures, the R&D Tax Credit is only one part of the tax planning conversation.

The treatment of research and experimental expenditures under Internal Revenue Code Section 174 can also have important implications for Life Sciences companies. While Section 174 and the R&D Tax Credit have separate requirements, evaluating them together can provide a clearer picture of your company's research investment and related tax considerations.

Is It Time for a Fresh Look?

Your company is investing in innovation. Your tax strategy should evolve with it.

If you've grown, advanced your pipeline, developed new products or technologies, improved manufacturing processes, or haven't revisited your R&D Tax Credit approach recently, now may be the right time for a fresh look.

Dean Dorton's Life Sciences professionals bring together industry knowledge and specialized tax experience to help companies evaluate R&D activities, identify potential opportunities, and develop a tax approach that supports their growth.

Are you capturing the full value of your investment in innovation?

Connect with Dean Dorton's Life Sciences team to take a closer look at your R&D Tax Credit strategy.

Talk with Our Life Sciences Advisors