The R&D; Tax Credit Was Built for Tech. Most Tech Companies Are Still Leaving Money Behind.

By Timothy C. Franklin · July 21, 2026 · 6 min read

A software company. Fourteen engineers. Two years of product development. Custom machine learning models. A proprietary recommendation engine. An internal deployment pipeline they built from scratch because nothing off the shelf did what they needed.

At tax time, their CPA filed the return. The R&D; tax credit was not on it.

Not because they didn't qualify. Not because the IRS said no. Because no one asked.

The Assumption That Works Against You

Most tech companies believe one of two things about the R&D; tax credit. Either they believe they are already claiming it, so there is nothing left to find. Or they believe their work is too routine to qualify, that the credit was meant for biotech labs and aerospace companies doing something more serious than building software.

Both of those beliefs cost money.

The companies that are already claiming it are often capturing a fraction of what they qualify for. The IRS allows credits on wages, contractor costs, and supply costs tied to qualifying research. Most claims capture wages only, and only for engineers working on new feature development. The developer maintaining infrastructure. The team that spent six months rebuilding the core database because the original architecture couldn't scale. The engineer who solved a caching problem nobody had published a solution to. Those wages often go unclaimed.

The companies that believe they don't qualify are, in most cases, wrong. Software development qualifies. Internal tools qualify. APIs qualify. Cloud infrastructure qualifies. If you built something because nothing existed that did what you needed, and if you went through a process of trying, failing, adjusting, and trying again, the IRS has a name for that. They call it research.

What Actually Qualifies for a Tech Company

The IRS uses a four-part test to determine whether an activity qualifies as research. Software development qualifies when the work involves genuine uncertainty. Not whether you knew how to write the code. Whether you knew the approach would work. A team that spent three months testing architectures because no one knew which would hold up at scale qualifies. The distinction is uncertainty. Not novelty.

Internal-use software qualifies under a slightly higher standard. The IRS requires that the software be innovative, carry significant economic risk, and not be commercially available. Most companies building custom internal tools pass this test without realizing it.

Qualified Research Expenses cover more ground than most companies claim:

• Wages paid to employees doing qualifying research work

• Contractor costs (subject to a 65% limitation)

• Supplies consumed directly in the research process

• Cloud computing costs used directly in development and testing

Cloud compute costs tied to research and development are relatively new territory. If your team is running experiments on AWS or Azure, those costs may qualify. Most companies have never looked at this line.

What Changed in 2022. And Why Nobody Warned You.

Before 2022, if your company spent $1 million on research and development, you could deduct the full $1 million in the year you spent it. That immediate deduction reduced your taxable income dollar for dollar.

Starting in tax year 2022, domestic R&D; expenses must be capitalized and amortized over five years. Foreign R&D; expenses over fifteen. That same $1 million in annual R&D; spending now generates $200,000 in deductions per year instead of $1 million up front.

Many tech companies were caught off guard. Some found their 2022 and 2023 tax bills higher than expected because expenses they had always written off immediately were suddenly on a five-year schedule.

Section 174 governs the R&D; expense deduction. Section 41 governs the R&D; tax credit. These are two separate provisions. The 2022 amortization change affected Section 174 only. The Section 41 credit, the dollar-for-dollar reduction in your actual tax bill, is not affected. It still works exactly as it did before.

If your tax burden increased in 2022 because of the amortization change, capturing the full Section 41 credit may offset a significant portion of that increase. Most companies have not run this analysis.

You Can Go Back Three Years

The R&D; tax credit can be claimed retroactively. The IRS allows amended returns going back three years. If your company has been doing qualifying work since 2023 and has never claimed the credit, those years are not closed.

Consider a company with twelve engineers, each earning $130,000 per year, all working on qualifying development. That is roughly $1.56 million in annual qualifying wages. Under the alternative simplified credit method, the credit is approximately 6% of qualified research expenses above a base amount. On wages alone, that is $93,600 per year. Over three years: $280,800. Off your actual tax bill.

Most of that money is sitting in returns that were never amended.

What to Do With This

The R&D; tax credit was designed to reward exactly what technology companies do. Building things that did not exist. Solving problems that had not been solved. Failing, learning, and trying again.

Most tech companies are either not claiming it, claiming too little, or unaware of how the 2022 law change altered the deduction side of the equation. A proper analysis takes a few days, not months. It looks at the last three years of wages, contractor costs, and cloud compute. It identifies what qualifies and what the credit is worth.

The credit exists. The work qualifies. The only question is whether anyone has done the analysis.

The review is free. The call takes thirty minutes. And if the numbers are there, we will tell you exactly what they are.