

CPA REVIEW FILE

Credit for Increasing Research Activities

Sample Technology Company, Inc.

Tax Years 2024-2025

Prepared by:



Publication Sample

Credit at a Glance

ANONYMIZED SAMPLE | TAX YEARS 2024–2025

\$157,228

Combined federal tax credit • 2024 and 2025

Credit Summary

Tax Year	Total QREs	Federal Credit
2024	\$650,103	\$65,010
2025	\$922,181	\$92,218
Total	\$1,572,284	\$157,228

QRE Reconciliation to Form 6765

Category	2024	2025
Qualified wages	\$133,917	\$730,692
Qualified supplies	\$61,997	\$137,164
Qualified computer costs	-	-
Applicable contract research	\$454,189	\$54,325
Total QREs	\$650,103	\$922,181

QREs = qualified research expenditures. Amounts follow the sample pro forma Form 6765 drafts.

LOOK BEYOND THE CREDIT NUMBER

Review the activities that generated the costs, the judgment calls behind inclusion, and the costs that were left out. Sections 5–8 show the reasoning; Section 10 maps the supporting evidence.

1. Purpose of This File

Publication sample. Company, employee, contractor, and project identifiers have been anonymized. Amounts are retained solely to demonstrate the review workflow and are not intended to identify any taxpayer.

This file is designed for the tax professional reviewing the research credit before it is incorporated into the return. It summarizes the result, shows how the qualified research expenditures (QREs) reconcile to the pro forma tax forms, identifies the principal qualification conclusions and judgment areas, and provides a practical review path.

This is not the evidentiary file. Underlying payroll, project records, technical documentation, interview support, contractor documentation, supply support, and other source materials are maintained separately in the IDR Response File.

2. Roadmap to the Credit

Use this four-step path to connect the reported credit to the underlying work.

1. **Confirm the result.** Start with Credit at a Glance and Section 3. Compare the 2024 and 2025 credit amounts with the pro forma Form 6765 drafts; Section 9 lists the related return workpapers.
2. **Trace the costs.** Use Section 4 to reconcile wages, supplies, and allowable contract research to Form 6765. Section 8 shows employee allocations; the IDR Response File holds the underlying cost schedules.
3. **Review the judgments and exclusions.** Section 5 connects the costs to business components. Section 6 explains significant judgment calls, and Section 7 makes the excluded population visible.
4. **Locate the evidence.** Use the folder index in Section 10 to find payroll, contractor and supply records, project evidence, and interviews in the accompanying IDR Response File.

3. Credit Summary

Tax Year	Total QREs	Federal Credit
2024	\$650,103	\$65,010
2025	\$922,181	\$92,218
Total	\$1,572,284	\$157,228

The amounts in this Review File follow the delivered pro forma Form 6765 drafts. The 2025 pro forma reports \$922,181 of QREs and a \$92,218 credit; the 2024 pro forma reports \$650,103 of QREs and a \$65,010 credit.

4. QRE Reconciliation to Form 6765

Category	2024	2025
Qualified wages	\$133,917	\$730,692
Qualified supplies	\$61,997	\$137,164
Qualified computer costs	-	-
Applicable contract research	\$454,189	\$54,325
Total QREs	\$650,103	\$922,181

Contract research - \$54,325 allowable QRE. The 2025 contractor population included both technical and nontechnical service providers. Vendors without sufficient nexus to qualified research were excluded. For included contractors, the study determined the qualified research spend and then applied the applicable contract-research limitation to arrive at the allowable QRE reported on Form 6765.

Qualified supplies - \$137,164. The study reviewed research-related material costs and included only the portion identified as used or consumed in qualified research. Costs with mixed research and nonresearch use were partially allocated rather than included in full. The detailed supply schedule and source support are maintained in the IDR Response File.

Qualified wages - \$730,692. Eight employees generated qualified wage expense in 2025. Four technical employees were treated as 100% qualified based on the nature and extent of their direct research activities. Four employees received partial allocations because their responsibilities included both qualified research and nonqualified activities. The employee-level wage base and allocation percentages are shown in Section 8.

WHERE TO VERIFY | IDR folders 01–04 contain calculations, payroll, contractor, and supply support. See Section 10.

5. Business Component Review

Business Component	Conclusion	Permitted Purpose	Technological in Nature	Elimination of Uncertainty	Process of Experimentation
Integrated Hardware Platform	Qualified	Improve the functionality and performance of an integrated hardware system.	Mechanical and environmental engineering principles were used to design, configure, and test the system.	At the outset, the team had not established the component configuration necessary to achieve required performance within physical and operating constraints.	Multiple prototype configurations were built and subjected to controlled performance testing. Failures and performance differences were analyzed and component selection/configuration was revised based on results.
Automated Controls Platform	Qualified	Improve automated control functionality and the system's ability to respond to changing operating conditions.	Engineering and computer-science principles were used to develop control logic and integrate sensor inputs with system responses.	The team had not established the control methodology or operating thresholds needed to produce reliable responses across changing conditions.	Alternative control rules and thresholds were implemented, tested under varying conditions, compared to expected behavior, and revised based on observed results.
Connected Device Network	Qualified	Improve connectivity, data integrity, reliability, and communication among connected system components.	Engineering and computer-science principles were used in network architecture, device communication, and system integration.	Uncertainty existed regarding architecture, communication methods, latency, and whether stable data exchange could be maintained across components.	Alternative network configurations and communication approaches were implemented and tested for reliability, latency, data integrity, and stability, then refined based on test results.
Customer Software Application	Qualified - limited to technical development	Improve technical software functionality, system integration, and reliable data handling.	Computer-science principles were used for software integration, data processing, and system reliability.	Technical uncertainty existed regarding integration and reliable system behavior. Routine aesthetic, content, and usability work was not treated as qualified merely because it occurred within the application project.	Technical alternatives were developed and tested for integration, reliability, data behavior, and system performance; routine interface work was separated from the technical development conclusion.
Advanced Treatment Module	Qualified	Improve component performance, reliability, safety, and integration with the broader hardware platform.	Engineering principles were used to evaluate component configuration and operating performance.	The team had not established which component configuration would meet performance targets while remaining within system constraints.	Alternative configurations were assembled and tested. Performance, safety, and system effects were compared and the design was modified based on results.

Business Component	Conclusion	Permitted Purpose	Technological in Nature	Elimination of Uncertainty	Process of Experimentation
Distributed Sensor & Control Units	Qualified	Improve distributed sensing, control, communication, and integration with the broader system.	Engineering and computer-science principles were used in sensing, communications, and controls.	Uncertainty existed regarding component configuration, communication approach, and whether distributed units could operate reliably within the integrated system.	Alternative sensing and communication approaches were tested for reliability and integration, with hardware/configuration changes made in response to observed failures and performance.
Controlled Validation Environment	Qualified - development costs only	Develop a controlled environment capable of producing repeatable technical validation conditions.	Engineering principles were used in environmental control, instrumentation, and test-system design.	The team had not established the design required to create stable and repeatable test conditions suitable for development work.	Alternative configurations, instrumentation, and control approaches were constructed and tested until repeatable conditions could be achieved. Costs attributable only to using the completed environment are distinguished from costs of developing it.
Integrated Sensing Subsystem	Qualified	Improve measurement accuracy, reliability, calibration, and integration with system controls.	Engineering principles were used in component selection, calibration, placement, and measurement methodology.	The team had not established the sensor configuration, placement, or calibration approach needed to generate reliable measurements under operating conditions.	Alternative components, placements, calibration methods, and measurement approaches were evaluated under controlled conditions and refined based on observed accuracy and reliability.

6. Principal Judgment Areas

Most of the credit calculation is mechanical once the qualified population is established. The items below are the places in this engagement where the result depended more heavily on factual judgment. For each, the file identifies why the issue mattered, the conclusion reached, and the support maintained behind that conclusion.

JUDGMENT SPOTLIGHT | Customer software application

Why this required judgment: The project included both technical software development and interface-related work. Routine aesthetic, content, and usability work does not qualify merely because it occurs within a software project.

INCLUDED IN THIS STUDY

Technical integration, data handling, reliability, and other software-engineering activities tied to identified technical uncertainty.

EXCLUDED FROM THIS CONCLUSION

Routine aesthetic, content, and usability work was not treated as qualified merely because it occurred within the software project.

WHERE TO VERIFY | Business-component analysis, personnel/contractor nexus schedules, and supporting development records in the IDR Response File.

Employee allocation percentages

Why this required judgment: Four of the eight employees included in the 2025 wage calculation performed a mix of qualified and nonqualified activities, and full-year project-level time tracking was not available for every employee.

Conclusion reached: Qualification percentages ranging from 20% to 80% were applied to those mixed-role employees based on responsibilities, project involvement, interviews, and available project records. Four technical employees were treated as 100% qualified based on the nature and extent of their direct research activities.

Support behind our conclusion: Employee-by-employee allocation schedules, interview support, available time/project records, and the identified nonqualified duties excluded from each allocation are indexed in the IDR Response File.

Executive and management personnel

Why this required judgment: The 2025 wage population includes a senior operating executive at an 80% qualification rate. Senior personnel can perform qualified services through direct research, direct supervision, or direct support, but general management duties are not qualified services.

Conclusion reached: The included percentage reflects the portion of the individual's activities identified as directly performing, supervising, or supporting the qualified development work; general management responsibilities were excluded.

Support behind our conclusion: The employee nexus schedule, interview support, identified project involvement, and allocation support are indexed in the IDR Response File.

Marketing employee allocation

Why this required judgment: One marketing employee has a 20% qualified allocation in 2025. Ordinary marketing activities are not qualified research, so this allocation requires a specific connection to the technical research activities.

Conclusion reached: Only the limited portion identified as directly supporting the qualified technical work was included; ordinary marketing responsibilities were excluded.

Support behind our conclusion: The employee-specific nexus explanation and supporting evidence for the identified direct-support activities are indexed in the IDR Response File.

Supply allocations

Why this required judgment: Research-related material costs included items with both research and nonresearch use, so the entire cost population was not automatically treated as qualified.

Conclusion reached: Only the portion identified as used or consumed in qualified research was included, producing \$137,164 of qualified supplies for 2025.

Support behind our conclusion: The supply-detail schedule, allocation method, project nexus, general-ledger support, and source invoices are indexed in the IDR Response File.

Contract research

Why this required judgment: The contractor population included technical development providers, foreign providers, and clearly nontechnical services. The population therefore required both nexus analysis and application of the contract-research limitation.

Conclusion reached: Nonqualifying vendors were assigned 0%. Included contractor costs were limited to work with sufficient nexus to qualified research and then subjected to the applicable statutory percentage, producing \$54,325 of allowable contract-research QRE for 2025.

Support behind our conclusion: The contractor schedule, included/excluded vendor analysis, project nexus, agreements, invoices, and payment support are indexed in the IDR Response File.

7. Visible Exclusions

Not everything we reviewed became a QRE.

The study evaluated the relevant cost population and excluded expenditures that did not have sufficient nexus to qualified research. Costs were not included simply because they were incurred by a technology-focused business, by a technical employee, or during a period in which research was occurring.

2025 population reviewed

2025 Population	Reviewed	Qualified spend*	Excluded / Not Qualified
Employee wages	\$811,190	\$730,692	\$80,498
Research-related supplies	\$171,391	\$137,164	\$34,227
Contractor spend	\$249,978	\$83,577	\$166,401

*Contractor qualified spend is shown before the statutory limitation.

CONTRACT RESEARCH: TWO DISTINCT FILTERS

\$249,978 reviewed – \$166,401 excluded = \$83,577 qualified spend. After the applicable statutory limitation, \$54,325 is the allowable QRE reported on the 2025 Form 6765.

Examples excluded from the claim

The exclusions include foreign development activity and services without sufficient nexus to qualified research.

Example	Role / Cost Type	Treatment
Contractor A	Foreign UI / technical services	0%
Contractor B	Foreign front-end development	0%
Market Research Vendors	Market research	0%
Executive Coaching Vendors	Executive coaching	0%
Fractional Finance Vendors	Fractional finance / CFO services	0%
Marketing Vendor	Marketing	0%

WHERE TO VERIFY | IDR folders 02–04: employee allocations, contractor detail, and supply support. See Section 10.

8. Employee Allocation Review - 2025

Employee	Role	Wages	R&D %	Qualified Activity	Basis for Allocation
Employee A	Analyst	\$56,614.48	20%	Limited direct support of identified development and testing activities.	Mixed role. Only identified direct-support activity was included; general analytical/operating duties were excluded.
Employee B	Chief Science Officer	\$86,230.86	100%	Direct technical development, experimentation, and technical oversight across qualified business components.	Technical role was identified as substantially devoted to direct performance and immediate technical supervision of qualified research.
Employee C	UI Designer	\$82,335.96	80%	Technical application development and integration work tied to qualified software activities.	Technical development/integration was included; routine aesthetic, content, and usability work was excluded from the allocation.
Employee D	COO	\$110,000.28	80%	Direct supervision and support of identified development activities.	Research-related supervision/support was included; general management, administrative, and other operating responsibilities were excluded.
Employee E	Marketing	\$44,007.63	20%	Limited direct support of identified qualified technical work.	Only specifically identified direct-support activities were included; ordinary marketing responsibilities were excluded.
Employee F	Mechanical Engineer	\$57,000.11	100%	Direct engineering design, prototyping, testing, and iteration.	Role was identified as substantially devoted to direct performance of qualified engineering research.
Employee G	Firmware Engineer	\$225,000.36	100%	Direct firmware development, integration, testing, and technical iteration.	Role was identified as substantially devoted to direct performance of qualified software/engineering research.
Employee H	Machine Learning Engineer	\$150,000.24	100%	Direct technical development, model/system testing, and iterative engineering work.	Role was identified as substantially devoted to direct performance of qualified technical research.

The table above shows not only the percentage applied, but the activity that drove inclusion and the basis used to distinguish qualified from nonqualified duties. The underlying employee support is indexed in the IDR Response File so the factual basis for any material allocation can be accessed without reconstructing the wage analysis.

9. Return Preparation Package

The delivered pro forma package includes, as applicable:

5. Federal Form 6765 for 2024 and 2025
6. Form 8974 payroll tax credit pro forma for the 2025 credit
7. Federal §280C adjustment statements
8. California Form 3523 research credit pro formas
9. California §280C adjustment statements
10. Other state research credit pro formas included in the delivered package

10. IDR Response File - Index

Folder	Contents
00	Index, study scope, taxpayer/entity information, study contacts
01	Final credit calculations, QRE schedules, and return workpapers
02	Payroll source reports, employee roster, wage reconciliation, allocation support, available time records
03	Contractor detail, agreements, invoices, payment support, and project nexus
04	Supply detail, GL support, invoices, and project nexus
05	Business-component files: project records, designs, test results, technical documentation, emails, and concise explanatory narrative
06	Technical interview notes / questionnaires and personnel support
07	Other corroborating documentation, certifications, patent/grant materials, and relevant contemporaneous records

11. What This File Gives You

The Review File is designed to eliminate the black box between an outside R&D study and the return your firm prepares.

It gives you a direct path from the pro forma Form 6765 to the QRE schedules, the activities that generated those costs, the significant judgment calls, and the underlying support.

You do not need to recreate the study or independently rebuild our analysis. The purpose is to make our work easy to follow, make the important judgments visible, and give you immediate access to the support behind the result whenever you want to go deeper.

The accompanying IDR Response File contains the indexed source documentation supporting the study.

Epping Advisors
R&D studies built for CPA review.