



Indiana Department of Revenue

Gathering Timely Documentation to Support an Indiana Research Expense Credit Claim

Treas. Reg. § 1.41-4(d) provides that taxpayers must retain records in sufficiently usable form (in other words, in an IRS audit ready format per the [IRS Audit Technique Guidelines](#) for research tax credit claims) and detail to substantiate claimed Qualified Research Expenses or (QREs which include wages, supplies, contract research) and Qualified Research Activities or QRAs at the project level.

To ensure that the Indiana Department of Revenue (DOR) does not disallow a Research Expense Credit (REC) claim, it is critical that sufficient and timely documentation be identified, gathered, properly compiled and retained should an examination become necessary. When a company is regulated by the government such as Life Science companies (*e.g.*, pharmaceuticals, biotechnology and medical devices) then Federal Food and Drug Administration (FDA) record keeping requirements can be used to support research activities. When companies apply for a patent or have a patent granted, then these forms of timely documentation serve as the strongest forms of proof, due to the inherently rigorous process to apply for a patent. Defense Contract Audit Agency forms of qualified research documentation are also a strong form of proof. From a best practice perspective, the following are a limited set of examples of timely documentation that the IRS typically requests during an examination:

- Complete Project Lists identifying the full Scope of Research Based Projects
- Patents or Patent Applications
- Annual Research and Development (R & D) or Technology Plans
- Research Project Authorization Requests
- Internal and External Correspondence on R & D
- Design Requirements or Functional Specifications
- Testing Scripts or Testing Logs
- Modifications Reports or Error Logs
- Technical Reports or Plans
- Laboratory Notebooks
- Ingredient Consumption Worksheets
- Raw Material Usage Records

Any documentation from the list above that can be obtained and completely compiled in an IRS audit ready format will strengthen the merits of the REC claim and overall REC filing position with DOR. How the documentation is compiled should support the relationship between the accounting records and the research activities or qualified research expenses that occur in Indiana.

Note that the required connection between qualified research expenses and qualified research activities credits may not be established based solely on surveys, interviews, estimates and data manipulation done during and/or after research was performed. A common, but unacceptable tactic is to establish an employee's or an organization's qualified wages using a percentage of W-2 wage amounts provided by a cost center based on oral testimony for which there are no corroborating records.

Both the IRS and DOR have held that these interviews do not qualify and provide insufficient information to determine the scope of employee activities and if their wages or expenses qualify for research credit. Without additional proof or records, the IRS and DOR may adjust or deny any research credits claimed.