

AN ALERT FROM THE BDO TECHNOLOGY PRACTICE

BDO KNOWS: TECHNOLOGY

PROGRAMMATIC MARKETING SOFTWARE AND R&D TAX CREDITS

THE FUTURE OF DIGITAL MARKETING

The programmatic marketing software industry is evolving and expanding at record rates, disrupting traditional marketing by putting unprecedented amounts of consumer information to use and enabling advertisers to place a higher value on behavior and demographics than previously feasible. According to research from eMarketer, U.S. programmatic digital display ad spending will reach \$22.1 billion by the end of this year, up nearly 40 percent over 2015 and representing two-thirds of total digital display ad spending in the United States. And Gartner predicts CMOs will spend more on technology than CIOs by 2017.

"Programmatic marketing" software uses advanced technology to disrupt the traditional media planning and buying model, automating bidding on audience-targeted digital ad space. Google and Facebook have historically been the largest players in the automated marketing tech space, but the ecosystem is expanding to include media and data providers, in addition to traditional advertising agencies.

FUNDING MARKETING INNOVATION THROUGH R&D TAX CREDITS

As marketing innovation continues to be an important factor in industry

competitiveness, those who understand the fundamentals of federal and state R&D tax credits and how they can be leveraged will be better positioned to take advantage of its potential cash flow and business returns.

Often equaling 15 percent or more of qualified spending, R&D tax incentives encourage companies to invest more in the development of new or improved technologies like programmatic marketing technology.

These dollar-for-dollar offsets against regular income tax liability have allowed thousands of startup and mature businesses to expand their labor force, invest in new technologies and finance other business objectives.

CHANGES FOR 2017 TAX PLANNING

In December 2015, the Protecting Americans from Tax Hikes (PATH) Act of 2015 made the federal R&D tax credit permanent, allowing businesses to more consistently include these credits in their tax planning and decision-making. As a part of the PATH Act, there are [two new opportunities](#) for certain eligible startups and small businesses to offset the Alternative Minimum Tax (AMT) with R&D credits or for qualified small businesses to elect annually for five taxable years to take up to \$250,000 in credits against



HOW DO I GET MORE INFORMATION?

For more information on your organization's eligibility for R&D tax credits or a complimentary BDO R&D review, please contact:

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the employer's portion of federal payroll taxes (FICA). These opportunities allow companies to monetize credits where they previously could not due to a lack of federal income tax liability.

In addition, in October 2016, the Internal Revenue Service issued final regulations expanding software-development activities eligible for research tax credits, which may include in-house programmatic marketing efforts.

IS YOUR COMPANY ELIGIBLE?

Your company may qualify for R&D credits if you pay the following types of employees or contractors to develop or improve your software:

- ▶ Software Engineers
- ▶ Software Developers
- ▶ Software Programmers
- ▶ Software Architects
- ▶ Platform Architects
- ▶ Data Scientists
- ▶ Data Engineers
- ▶ Integration Engineers
- ▶ Automation Engineers
- ▶ Product Engineers
- ▶ Applications Engineers

- ▶ Database Architects
- ▶ Analytics Engineers
- ▶ Marketing Statisticians
- ▶ Predictive Analytics
- ▶ Data Analysts
- ▶ Programmatic Strategists

EXAMPLES OF QUALIFIED ACTIVITIES

R&D tax credits can cover a broad swath of activities — not just groundbreaking discoveries. In fact, research activities don't necessarily have to be successful to qualify. To be eligible for the federal credit, they simply must meet the following four criteria:

- ▶ **Permitted Purpose Test.** Activities must be intended to develop or improve the functionality, performance, reliability, or quality of a product, manufacturing process, software, invention, technique, or formula (business component).
- ▶ **Process of Experimentation Test.** Activities must be designed to evaluate one or more alternatives to achieve a result.

- ▶ **Technological in Nature Test.** Activities must fundamentally rely on the principles of engineering or the physical, biological, or computer sciences.
- ▶ **Uncertainty Test.** Activities must attempt to eliminate uncertainty regarding the capability or method of developing or improving the component or the component's appropriate design.

Examples of potentially qualifying activities include activities that attempt to develop or improve:

- ▶ Software as a service
- ▶ Software for use within the company
- ▶ Algorithms written for fundamental, basic or underlying computer processes, e.g., leveraging data to strategically connect people and businesses
- ▶ The initial releases and further improvements of applications that run on users' various devices that display the advertising
- ▶ Server optimization for advertising requests
- ▶ Database management techniques
- ▶ Automation techniques to increase efficiency

BDO TECHNOLOGY PRACTICE

BDO works with a wide variety of technology clients, ranging from multinational Fortune 500 corporations to more entrepreneurial businesses, on myriad accounting, tax and other financial issues.

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