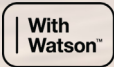# Bringing ROI to R&D

KPMG helps a software company realize savings and reduce disruption

With Watson™

Client challenge

For 10 years, a software company performed internal analysis of its own data and activities to claim the R&D tax credit and was satisfied with the result but lacked the resources and time to evaluate claims for additional opportunities. When new leadership for tax joined the company, KPMG LLP offered to review prior years for any previously overlooked opportunities. Tax leaders often have concerns that hiring outside resources to conduct assessments reduces the ROI, but the leader agreed an evaluation could be helpful. As a result, KPMG was able to identify millions of dollars and tens of thousands of hours of associated activities that could have been considered eligible.

The core challenges faced by the client were:

— Limited in-house tax resources to identify, document, and report all eligible R&D activities

— Complexity in gathering the right documentation and conducting the technical analysis with the right technical subject matter experts involved in R&D projects.

Benefits to client

KPMG Research Credit Services with IBM Watson® combines extensive tax knowledge and experience with cognitive analysis to create an R&D tax credit solution. With the AI capabilities of Watson—which brings natural language processing, machine learning, intelligent automation, and cognitive computing to the credit claim process—KPMG was able to review more of the company's R&D projects, activities, expenses, and associated technical documentation, ultimately uncovering more activities eligible for the credit. It also greatly reduced the number of hours the company's research, engineering, and tax teams needed to be involved in the process, because KPMG was able to identify and analyze more documents with the quality information needed for substantiation. The result: the company's researchers and engineers could stay focused on their core day-to-day responsibilities of continuous innovation and product expansion.

The company was able to recognize:

— An average increase of 50 percent in federal research credits across years of previously submitted tax credits that were included within the scope of the review from activities and expenses that were not analyzed before

— Minimal business disruption among R&D teams to gather documents and attend interviews.

KPMG approach

KPMG tax professionals first reviewed the company's prior R&D tax credit filings and the opportunities for additional value. Activities and expenses from previous tax years were examined to determine whether projects were eligible to be claimed. By deploying Watson to review a large volume of documents across a scope of new projects, KPMG could provide a confidence score for eligibility for the company. Simultaneously, KPMG used the same method for the tax return being prepared for filing at the time of this analysis, supplementing such method by conducting interviews with company subject matter experts to confirm that the findings from Watson were appropriately applied to the company's facts and circumstances.

Watson technology enabled KPMG to efficiently perform an analysis of a copious amount of documentation across previously unanalyzed projects, which was ultimately reviewed and validated by KPMG tax specialists along with company management. The insights generated by Watson enabled KPMG to identify significant overlooked tax credit opportunities while also providing a greater ability to substantiate those claims by surfacing the most robust and quality documentation, ultimately boosting the company's ROI in claiming the credit over an extended period of time.

KPMG insights

Many companies hesitate to claim the R&D tax credit.
Leaders in the C-suite or tax office may believe their organizations lack the resources and time to claim the R&D tax credit. They may also believe that hiring outside consultants to conduct assessments would reduce the ROI of any effort.

By leveraging Watson technology, KPMG can help transform the cost-benefit consideration. Now troves of documents across projects can be assessed and scored in little time in order to determine eligibility for the credit without disrupting a company's day-to-day R&D operations, freeing them to focus on delivering innovation and driving a competitive advantage.

The data may be available, and Watson can help us uncover it.
Finding relevant tax data in large volumes of documentation would be cost prohibitive for many businesses. The power of Watson enables KPMG to analyze past tax credit filings for missed opportunities while enhancing current and future claims with a level of quality and efficiency, giving companies significant value and greater confidence in their results.

To learn more about how our dedicated research credits team coupled with IBM Watson can help you increase the amount of R&D income tax credits, please visit: www.kpmg.us/alliances/kpmg-ibm/research-credit-services-ibm-watson.html.

kpmg.com/socialmedia