

## Research and development tax incentives for the entertainment and media industry

### Your opportunity

Research and development (R&D) is a differentiating factor in the entertainment and media industry as voice, data, and video converge into new platforms and new product lines. Consumer demand and intense competition for innovative new products, special effects, and alternative delivery channels are encouraging greater investment in R&D.

- Visual effects
- Animation
- Media asset management systems
- Facilities design (all digital facilities)
- Computer gaming
- Digital television
- Web-based systems and interactive media
- Media streaming and wireless projects
- Co-development projects with vendors
- Labs
- Patents and intellectual property

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## Is your company fully aware of opportunities for federal, global, and state research tax incentives?

You can address the cost and risk of research and development (R&D) by leveraging available federal, state, and local tax incentives. Two methods exist to calculate the credit for taxpayers who conduct qualified research: (1) the traditional incremental research credit and (2) the alternative simplified credit (ASC). The ASC is beneficial to companies that have not reported research credits in the past or have reported nominal credits due to the complex base amount rules. Whichever credit you choose to explore, it is important to understand the rulings and interpretive guidance to be able to defend reported R&D tax credits.

Federal tax credits provide permanent benefits to reduce the tax burden and generate cash flow. You also may qualify for state and global incentives, depending on where activities are performed.

Examples of initiatives that may be eligible for R&D tax incentives include:

Determining the true cost of R&D is often difficult because few companies have a project accounting system that captures many of the costs for support provided by the various personnel who collaborate on R&D. The typical project tracking system would not include contractor fees, direct support costs, and salaries of high-level personnel who participate in the research effort.

### Our approach

The Deloitte R&D team is a national practice of highly experienced tax professionals specializing in R&D tax incentives. Our team includes former IRS and Treasury personnel who were integral in developing the statutory provision (§41), regulations, rulings, court cases, and issue papers. We also have computer scientists, special-effects professionals, and engineers with a deep understanding of the underlying technology. These specialists can help you analyze qualified R&D activities and assemble documentation to defend your claim, based on their extensive knowledge of tax law and your industry.

Our R&D professionals are exclusively dedicated to R&D tax issues and specialize in particular industries, including entertainment and media. Our focus provides us with an unusual depth of experience. We also work in an efficient and nonintrusive manner so that you can stay focused on business.

In addition, we have a demonstrated methodology that includes:

**Integration of software solutions** — Deloitte has created an effective technology tool, *I Smart*, which helps automate the computation and information-gathering processes associated with R&D credit projects. *I Smart* is a broad, Web-based technology platform that provides easy-to-use, activity-based information requests, as well as facilitating the uploading and storage of relevant contemporaneous documentation.

Deloitte will customize *I Smart* for use on your engagement. Our approach includes system design and setup, training for technical personnel, tracking of the annual process, assisting with the review and analysis of information, and providing a specific review of the annual documentation and computation process.

**Quality Assurance** — Our Quality Assurance review process includes a technical review of deliverables and computations to evaluate whether the research credit rules are properly applied and that the scope of qualifying research is considered. This review team includes former IRS, Treasury, and Congressional staff who participated in drafting the legislation and regulations, as well as developing current IRS test policies and practices. To help analyze compliance, our process includes a pre-inspect of your claim by Deloitte professionals with vast experience with R&D checks.

**R&D tax studies** — Our R&D tax studies address federal research tax credits and deductions, as well as global and state R&D incentives. We report to you at the end of each phase of our study so that you can determine if you wish to proceed with the next phase. If our initial scoping

phase indicates that a full study is not justified, you may elect to end the study. If you want us to proceed with a full study, we perform in depth fieldwork and prepare the appropriate documentation needed to support our findings.

Additionally, we can provide assistance during the IRS examination of your claim.

Our goal is to provide value beyond the R&D tax incentives that you claim. Our approach provides a process that your tax function may ultimately replicate and use to manage future tax compliance costs and burden.

### The Deloitte difference

The Deloitte R&D team offers:

- Extensive experience with specialized areas of the entertainment and media industry, including movie studios, broadcast TV, cable companies, video gaming (hardware and software), visual effects, publishing, and interactive entertainment companies.
- A demonstrated methodology for carefully evaluating and documenting R&D tax incentives.
- A national team with deep technical knowledge in this complex area.
- Proprietary software, tailored to your circumstances.
- Computer scientists, special effects professionals, engineers, and other specialists who understand entertainment and media companies' qualified research.
- Efficient and nonintrusive R&D analyses that help you stay focused on business.



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