



KPMG Research Credit Services with IBM Watson

Transforming the speed and ROI of generating tax credits



The Research and Development (R&D) tax credit rewards your company for investing in product and process improvements in the United States. However, the process of qualifying research activities and expenses and substantiating claims for credits is often cumbersome, requiring substantial manpower to meet statutory standards. By providing robust, higher-quality documentation, you can meet this burden of proof to successfully claim and retain the financial credits. KPMG's cognitive platform, based on IBM Watson, helps companies achieve this objective without impacting your employees' workload.

Substantiate your R&D tax credit with confidence

The federal R&D tax credit can provide sizeable financial benefits. If your company conducts research to develop new or improved products or processes within the United States, you could be eligible for a permanent federal and/or state tax benefit of 10 percent or more of your qualified R&D spending; that qualified spending is the incurred expense that exceeds a calculated base amount of research expenditure.

A big issue with the current process is the person-hours it takes to gather volumes of supporting documents and then review those documents for evidence of qualifying activities. To manage the effort, taxpayers take a subset of documentation and review it for relevant evidence to determine the qualified activities and costs.

While this process has been used for years and stands up to most audits, there are drawbacks. For example, the strongest evidence for a claim might not be within the passages selected by manual review. In addition, because the document collection process is so labor intensive, tax departments tend to burn political capital by asking Information Technology (IT) and engineering to gather contracts, project documents, wikis, e-mails, slide decks, and more. Finally, the review process requires many hours of skilled labor to read the documents and identify the relevant evidence for R&D activities.

Fortunately, KPMG's experience and IBM's technology can increase the volume and speed of document reviews without increasing labor while also providing more and better evidence to improve the success of credit claims sustained. Combining KPMG's experienced tax credit professionals with Watson,

IBM's artificial intelligence (AI) platform, creates the first automated platform for performing the qualitative analysis required for R&D tax credits.

The result is comprehensive, higher-quality documentation supporting the R&D credit claim, which could lead to increased credit retention under Internal Revenue Service (IRS) audit. The automated approach also reduces the demands that the tax organization places on other business units and potentially uncovers additional activities and expenses eligible for credit. All this, in turn, may possibly produce improved cash flow, reduced tax liability, and increased earnings per share (EPS). With KPMG and IBM Watson, your company can take advantage of the R&D tax credit using a more holistic but less intrusive approach.

Are KPMG Research Credit Services with Watson right for your company?

Answering "yes" to any of these questions indicates an opportunity to improve your company's R&D credit process or the end result:

- Is your company developing new or improved products or processes?
- Does your company employ technical personnel such as scientists, engineers, IT professionals, or computer software professionals?
- Does providing documentation for the R&D tax credit disrupt your core business?
- Have your R&D tax credits been adjusted under audit?
- Does your current R&D substantiation process only examine a select subset of documents?

KPMG: Providing deep tax experience

KPMG's Research Credit Services (RCS) assists clients in identifying, calculating, and documenting tax deductions and credits for qualified R&D activities and expenditures. KPMG's RCS deploys a local and national team of tax and accounting professionals, industry-experienced engineers, data and analytics specialists, and technology professionals to help your company obtain, organize, and verify R&D data more efficiently and effectively. By following a tested methodology and leveraging technology such as IBM Watson, KPMG's RCS professionals build audit-ready deliverables to help you realize the available tax benefits associated with your R&D investments. KPMG's RCS delivers a high Return on Investment (ROI), which may result in a lower tax rate, improved earnings per share, and cash tax savings.

IBM: Introducing Watson

An AI platform for business, IBM Watson's cognitive technology follows the same logic and reasoning that humans use every day. KPMG's Tax professionals train, not program, Watson to enhance, scale, and accelerate tax credit preparation. With this platform, you can discover hidden corporate taxes with greater confidence. To support the tax credit, Watson can:

- Analyze large volumes of structured and unstructured data at rapid speeds, using natural language processing to better understand research expenditures
- Ingest and accumulate high volumes of data and insight continuously from every interaction
- Understand complex questions and evaluate many possible meanings to determine what is being asked
- Form hypotheses, make considered arguments, and prioritize recommendations to help tax professionals make better decisions
- Present answers and solutions based on supporting evidence and quality of information found.

KPMG Research Credit Services with Watson

Combining KPMG's tax experience with Watson's cognitive capabilities, you can digitally transform your tax review, analysis, and disposition for a wide range of transactions.

To begin the process, KPMG uploads thousands of documents—regardless of file type—into the platform. Watson applies advanced cognitive analytics and reasoning tools to analyze the documents and qualify projects eligible for research credits. Watson identifies passages to help substantiate R&D credits and presents a prioritized view of the findings. In addition, Watson can review R&D contracts to find evidence of rights and risks required by tax law to determine the party entitled to claim the contract-related costs for the R&D credit.

KPMG's Tax professionals then review Watson's findings from high to low priority, approve or reject each finding, add notations, and highlight additional findings in documents. Transactions are reviewed and analyzed against tax rules and

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Reap the potential benefits of applying AI to tax credits:

- **Increase ROI.** Improve financial return through higher-quality, audit-ready tax credits that can be reinvested for growth. By not limiting the documentation reviewed, you can potentially discover new, eligible R&D activities and costs to increase the credit.
- **Increase efficiency.** Minimize disruption to your business with a less intrusive, less time-consuming approach by eliminating human filtering.
- **Reduce risk.** Examine all documents and let the AI focus the professional only on the most relevant, valuable passages to qualify projects.
- **Prove and sustain value.** Build a higher-quality R&D credit deliverable to increase credit amount retention under IRS audit.

supported by a confidence score and evidence-based reasoning that uses KPMG's proprietary tax rules, interpretations, and knowledge of the tax law. In the end, your company is able to build a more robust, IRS-ready, R&D credit deliverable.

Conclusion

To increase your confidence in and improve the efficiencies of the R&D tax credit process and quality of IRS-ready deliverables, KPMG has built the first automated platform focusing on qualitative documentation for qualified activities and contracts using IBM Watson's cognitive analysis.

With the ability to review and analyze thousands of documents with speed and accuracy—without increasing human labor—KPMG can reliably and thoroughly validate your company's R&D activities, possibly discover unknown credits, and quickly complete robust IRS deliverables. By embracing this offering, companies with ongoing R&D potentially benefit from improved cash flow, reduction in tax liability, and increased EPS while simultaneously enabling their human resources to focus on strategic work.

Together, KPMG and IBM Watson increase your confidence in the documentation behind your R&D credit claim and increase the efficiencies in your R&D tax credit process.

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