



# Industry Director Directive #1 on Research & Experimentation (R&E) Credit Claims

LMSB Control No: LMSB-4-0307-025  
Impacted IRM 4.51.5

April 4, 2007

**MEMORANDUM FOR INDUSTRY DIRECTORS**  
DIRECTOR, FIELD SPECIALISTS  
DIRECTOR, PRE-FILING AND TECHNICAL GUIDANCE  
DIRECTOR, INTERNATIONAL COMPLIANCE AND POLICY

**FROM:** Patricia C. Chaback /s/ Patricia C. Chaback  
Industry Director  
Communications, Technology and Media (CTM)

**SUBJECT:** Tier I Issue Research & Experimentation (R&E) Credit Claims Directive #1

The Research & Experimentation (R&E) Credit Claims Issue has been designated as an LMSB Tier I issue. Cheryl P. Claybough, Director of Field Operations East, has been named as Issue Owner Executive for this Tier I Issue and will be responsible for ensuring that the issue is identified, developed and resolved in a consistent manner across all LMSB cases involving similarly situated taxpayers.

## **Background/Strategic Importance:**

The volume of R&E Credit claims that have been filed, along with the compliance audit resources required to examine these claims, has continued to rise to a level of high strategic importance to LMSB, as a Tier I issue. A growing number of these claims, both formal and informal, are based on marketed tax products supported by studies prepared by the major accounting and boutique firms. Typically these studies are marketed on a contingent fee basis and exhibit one or more of the following characteristics:

1. high-level estimates,
2. biased judgment samples,
3. lack of nexus between the business component and qualified research expenses (QREs), and
4. inadequate contemporaneous documentation.

## **Issue Tracking:**

In order to better identify and analyze the patterns, trends and compliance impact of the R&E Credit Claim Issue, the following issue tracking procedures are now required on all open examinations which have either formal or informal R&E Credit Claim Issues. LMSB Team Managers and Revenue Agents must follow these procedures:

1. On ERCS, **Tracking Code 0551** is required to be manually input on all R&E Credit Claims at the examination level.
2. On IMS, examiners need to accurately complete the 'Issue Details' screens. This includes input of the SAIN code, UIL code and 'Adjustment Source' information:
  - For the SAIN Code, select '**SAIN Code 604-06 General Business Credit**' from the drop-down menu.

- Identify the proper UIL code. There are numerous UIL codes for R&E issues ranging from **41.00-00 to 41.55.09**. Examiners should select a '41 series' code related to the most significant issue on the R&E Credit Claim.
- Complete the 'Adjustment Source' screen to identify the type of claim, either 'formal' or 'informal' and any additional claim information.

**Planning and Examination Guidance:**

When addressing a R&E Credit Claim, examiners must review and follow the guidance related to the R&E Credit Claims issue, including Industry Directives, Notice 2002-44, and the Research Credit Audit Technique Guide (ATG), which provides suggested guidelines for auditing research credit issues. Additional information concerning the R&E Credit Claims issue can also be found on the [Research Credit website](#). If examiners need further assistance, they should contact one of the Research Credit Technical Advisors.

This document is not an official pronouncement of the law or the position of the Service and cannot be used, or cited, or relied upon as such.

cc: Commissioner, LMSB  
Deputy Commissioner, Operations, LMSB  
Deputy Commissioner, International, LMSB  
Division Counsel, LMSB  
Commissioner, SBSE  
Chief, Appeals  
Director, Performance, Quality and Audit Assurance

*Page Last Reviewed or Updated: 2013-01-08*