HOW TO OPTIMIZE YOUR BANK'S MODERNIZATION INVESTMENT

The IRS R&D tax credit can help

YOUR FINANCIAL INSTITUTION MAY QUALIFY FOR THE R&D TAX CREDIT

FIS® has invested heavily in digital technologies to help banks transform and stay relevant in the digital age. Our next generation solutions empower you to build a better bank on world-class technology. If your banking transformation is part of a wider technology renewal, your financial institution (FI) may qualify for the research and development (R&D) tax credit. In this article, we provide an overview of the R&D tax credit and consider the drivers and practicalities. We hope this provides you with some insight and we encourage you to find out more.

Technology has moved from the back office to being a central part of everything a bank does. In practice, banks have become technology companies operating within the constraints of a banking license. It has become a dynamic digital business. In the digital age we know that agility and responsiveness are essential and the rewards are high. Banks with the right technology and development methods can increase engagement by doing more for their customers. To get ahead, banks need to find smart ways of creating new customer experiences quickly and cost effectively.

FIS is helping many of the world's top banks modernize their technology platforms to stay relevant and competitive in the digital age. We believe that digitalization, accelerated by COVID-19, provides a unique opportunity for banks to do new things and to do things differently. With modern technologies, payments and other financial services can be delivered in context and consumed where and when people want them.

What is the R&D tax credit?

U.S. Internal Revenue Code (IRC) Section 41 provides taxpayers a federal non-refundable credit that typically ranges between 5.5-6.5% of qualified expenditures for increasing research activities that meet specified criteria.

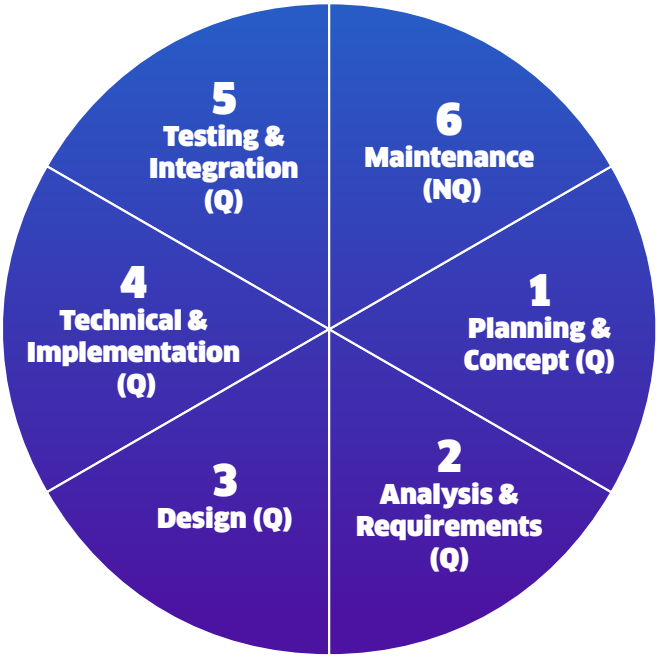
- **Traditional research credit:** Tax credit to the extent current year qualified research expenditures exceed the base amount; the base amount cannot be less than half of the current year spend
- **Alternative simplified credit (ASC) option:** Tax credit to the extent current-year qualified research expenditures exceed 50% of average qualified research expenses for the three preceding taxable years
- **State research credits:** Available in over 40 states in the United States
- **Qualified R&D expenses:** Employee W-2 wages, supplies and contract research (vendor payments) that can be allocated to qualified research activities

The intent of this government-sponsored tax incentive is to encourage businesses to perform the research necessary to increase the innovative qualities and efficiency of the U.S. economy.

If your modernization project is part of a larger technology renewal project in the same ecosystem, then your FI might qualify for an R&D tax credit of up to 12%.

Note: This article specifically address R&D tax credits available in the United States. Other similar programs may also be available in jurisdictions outside the U.S. Please contact your auditor to discuss specific availability.

WHO QUALIFIES FOR AN R&D TAX CREDIT?



Examples of non-qualifying (NQ) activities:

- Production
- "Keeping the lights on"
- Minor bug fixes
- Post-implementation

Examples of qualifying (Q) activities:

- Direct performance of design and development of new or enhanced software applications
- Testing of new or enhanced software applications

- Programmers
- Project management
- Architects
- Director leadership
- Engineers
- Direct support
- Quality assurance
- Business analysts
- Testing
- Traders
- Direct supervision
- Marketing/Sales

Opportunities to identify R&D activities

The continuing introduction of new banking products, channels and technologies increases complexities and necessitates the modernization of old legacy core banking systems. The COVID-19 pandemic has accelerated the move to digital products and contactless/remote delivery methods. A combination of internal and external drivers are in play as qualified activities for federal and state research tax credits. Examples of specific internal and external drivers to be considered for research credit-eligible activities are provided in the following table:

Internal drivers This development will involve technical issues regarding:	External drivers This development will involve technical issues regarding:
Product and channel growth • Gathering data from multiple sources, which could involve data models, data structures, data quality and data availability • Scalability across multiple factors, including channels and process loading factors	**Regulatory compliance** • Regulatory compliance typically involves addressing Personally Identifiable Information (PII) • Data retention policies will involve higher levels of volume and performance • Authentication and authorization across multiple systems typically need to be addressed
Legacy systems management • New technologies typically do not provide a one-to-one mapping to the functionality of old technologies and therefore require different approaches in the new system. • It is typically not feasible to perform a "big-bang" flip over, necessitating a phased transition. A phased transition requires a plan as to what is phased and when. More significantly, the phased transition usually requires sequencing and synchronization of the legacy and new systems. Data consistency is especially important. • Transitioning from on-premises to a cloud environment will involve multiple considerations including: - Security in the cloud requires a different type of attention than on-premises - Interaction and performance between applications will be different in the cloud environment - Customizations will be restricted and more complex in the cloud environment - Compliance with data, energy and environmental standards pose new and different challenges for cloud application	**Increasing competition** • Adapting core applications to new platforms - Multiple environment support • A better user experience (UX) supported by a new process flow and user interfaces (UI)
Cost reduction • Consolidation of standalone applications typically involves establishing a common code base and determining what functionality is kept and what is discarded, sometimes due to unknown linkages and consequences. • Performance tuning will lead to system performance improvements. • It is typical that a services approach (including microservices) is considered/adopted	**Customer centricity** • Single sign-on (SSO) capability across multiple channels and multiple applications • Automation of formerly manual processes • Adoption of machine learning (ML) approaches to improve the user experience

Summary

The R&D tax credit has become a focal point for attracting businesses to make investments in new technology. New skills are also required for the jobs associated with implementation of these new technologies, which requires further investment. The transformation of financial institutions through the digitalization of their operations has required the industry to invest billions of dollars; these expenditures can be reduced by claiming tax credits available from various levels of government.

By identifying the appropriate activities that can be treated as research credit-eligible, companies can allocate the relevant costs to resolve the requisite technical uncertainties to claim credits that can convert an FI's decision from a "no-go" to a "go" for funding transformation-related investments.

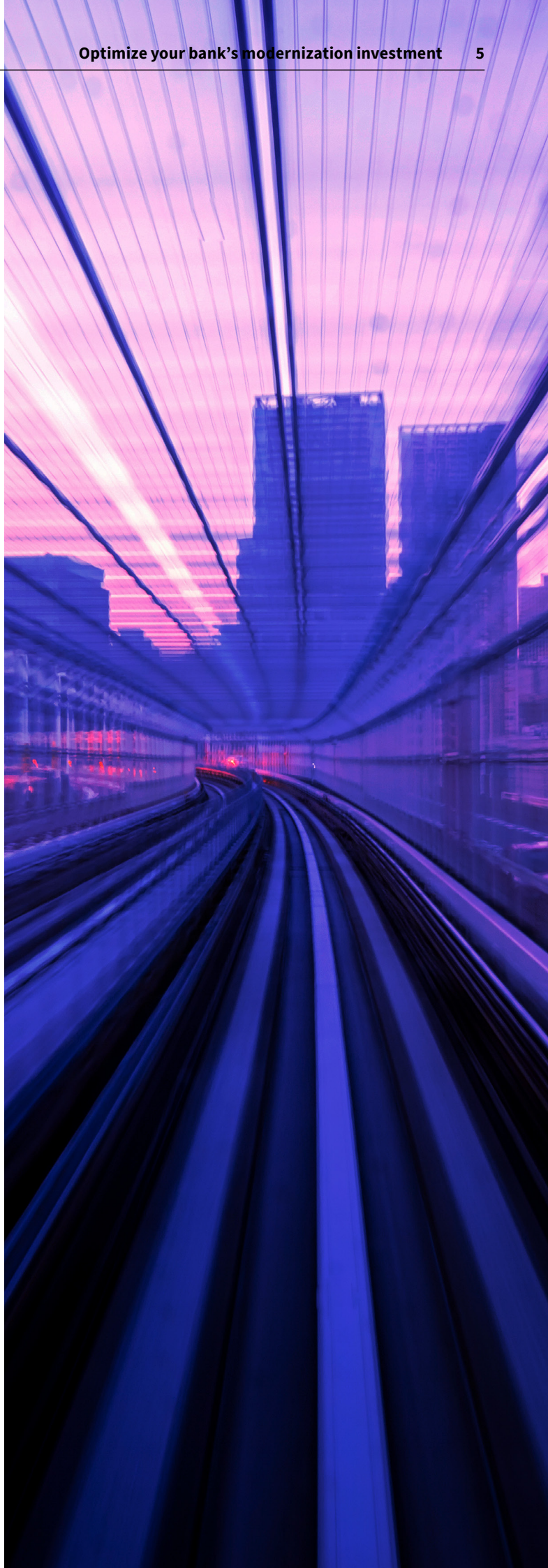
Don't miss out - Get expert advice

We realize that assessing, quantifying and building the case for the R&D tax credit is complex and requires specialist expertise. To help you gain a deeper understanding of the tax credit, be sure to discuss this with your external auditor to better understand and quantify the benefits of the R&D tax credit for your institution.

Visit these sites to learn more:

Tax Foundation.org/research-and-development-tax

A Simple Guide to the R&D Tax Credit | Bench Accounting



About FIS

FIS is a leading provider of technology solutions for financial institutions and businesses of all sizes and across any industry globally. We enable the movement of commerce by unlocking the financial technology that powers the world's economy. Our employees are dedicated to advancing the way the world pays, banks and invests through our trusted innovation, absolute performance and flexible architecture. We help our clients use technology in innovative ways to solve business-critical challenges and deliver superior experiences for their customers. Headquartered in Jacksonville, Florida, FIS ranks #241 on the 2021 Fortune 500 and is a member of Standard & Poor's 500® Index. To learn more, visit www.fisglobal.com. Follow FIS on Facebook, LinkedIn and Twitter (@FISGlobal).

www.fisglobal.com

getinfo@fisglobal.com

twitter.com/fisglobal

linkedin.com/company/fis

ADVANCING THE WAY THE WORLD PAYS, BANKS AND INVESTS™