



ARE YOU OPTIMIZING YOUR BANK MODERNIZATION INVESTMENT?

Get an expert view



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 Modern Banking Platform empowers you to build a better bank on world-class technology. If your core banking and payments transformation is part of a wider technology renewal, your financial institution (FI) may qualify for the R&D tax credit. In this white paper 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 be at the front, middle and back 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.

FIS is helping many of the world's top banks modernize their banking and payments platforms to stay relevant and competitive in the digital age. We believe that digitalization, which is being 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.

FIS Modern Banking Platform – Transforming Global Banking

Modern Banking Platform offers a new approach to banking that empowers banks to become more agile, competitive and future-ready. Built from the ground up as a cloud-enabled core, FIS Modern Banking Platform is entirely componentized, giving your FI freedom to transform at a pace that reflects its business strategy and goals. With a cloud deployment there's the option of a subscription-based software as a service (SaaS) model that aligns your processing costs with business success.

Our Modern Banking Platform is an end-to-end componentized real-time banking platform, designed to maximize flexibility without the need for coding. However, we realize it may be part of a larger enterprise technology renewal project in the same ecosystem. If that is the case, your FI might qualify for an R&D tax credit of up to 12 percent

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 percent of qualified expenditures for increasing research activities that meet specified criteria:

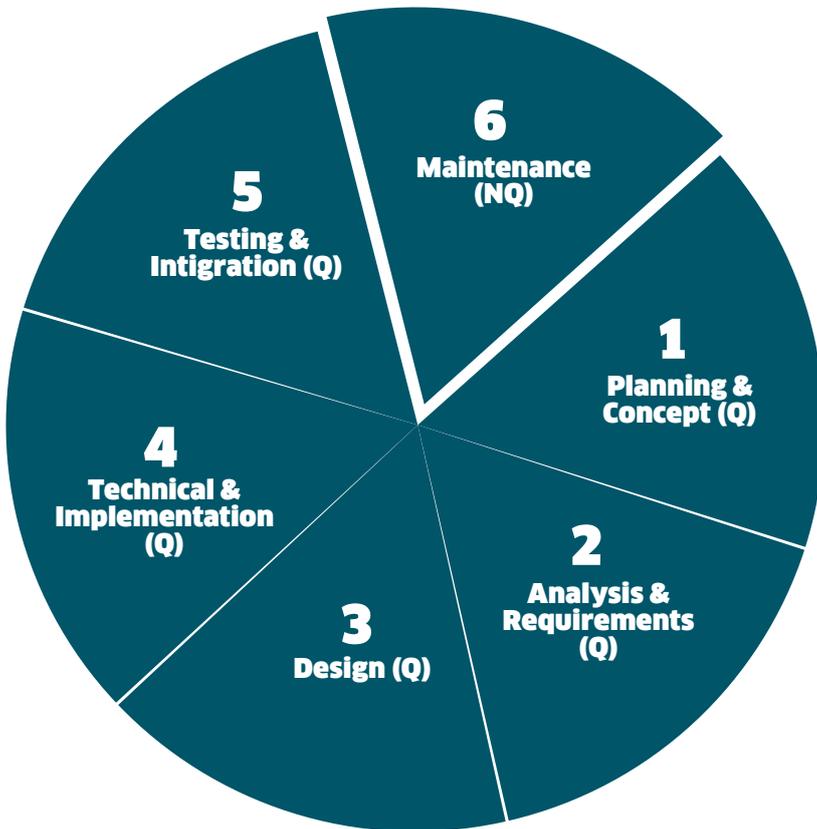
- Traditional research credit: Tax credit to the extent current-year qualified research expenditures exceed the base amount; the base amount cannot be less than half of the current year spend
- Alternative Simplified Credit (ASC) option: Tax credit to the extent current-year qualified research expenditures exceed 50 percent of average qualified research expenses for the three preceding taxable years
- State research credits: Available in over 40 states in the U.S.
- 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. COVID relief bills, if passed, may further impact the R&D tax credit parameters.



¹This paper specifically addresses R&D tax credits available in United States. Other similar reliefs may also be available in your jurisdiction – please contact your auditor to discuss specific availability.

What Qualifies for an R&D Tax Credit?



Examples of Non-Qualifying Activities "NQ"

- Production
- Minor Bug Fixes
- "Keeping the Lights on"
- Post-Implementation

Examples of Qualifying Activities "Q"

- Direct performance of design and development of new or enhanced software applications
- Testing of new or enhanced software applications
- Programmers
- Architects
- Engineers
- Quality Assurance
- Testing
- Direct Supervision
- Project Management
- Director/Leadership
- Direct Support
- Business Analysts
- Traders
- 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 coronavirus pandemic is also putting pressure on financial institutions to 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 <ul style="list-style-type: none"> - 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 <ul style="list-style-type: none"> - 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 <ul style="list-style-type: none"> - 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: <ul style="list-style-type: none"> ● 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 applications 	Increasing Competition <ul style="list-style-type: none"> - 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 <ul style="list-style-type: none"> - 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 <ul style="list-style-type: none"> - 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 research and development tax credit has become a focal point for many countries and jurisdictions within them, in 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.

About FIS

FIS is a leading provider of technology solutions for merchants, banks and capital markets firms globally. Our more than 55,000 people are dedicated to advancing the way the world pays, banks and invests by applying our scale, deep expertise and data-driven insights. 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 is a Fortune 500® company and is a member of Standard & Poor's 500® Index.

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