Engine

STARTUP SPOTLIGHT ON R&D expensing

“As a bootstrapped startup, we run our company at break even/slight profitability. We've been stuck in a holding pattern focusing on services revenue (vs. software revenue) because our software related payroll is no longer expensable. Put another way, if I spend money on R&D, I will go from breakeven to showing a large profit. I cannot afford the tax bill, so I am not investing in additional R&D hires at the moment. This is a perspective that is not shared often, i.e., that R&D capitalization puts bootstrapped startups at a disadvantage compared to VC-backed startups. That is because many VC-backed startups are still not profitable even after capitalizing R&D. If you are running a net income loss of -50%, and you lose the ability to expense 20% of that (R&D) expense, you are still running at a -30% loss, which means you have no tax bill.”

- Sal Abdulla
Founder & CEO,
Nixsheets (San Francisco, CA)

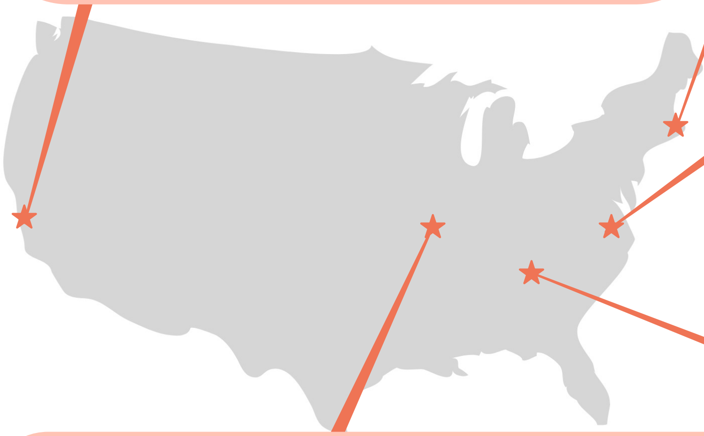
nixsheets
Accounting Simplified

“174 capitalization sounds like a benign accounting rule, but it creates fictional profit and a big tax bill that we're supposed to pay with cash we haven't actually earned. These extra taxes will reduce our hiring by one or two people this year.”

- Josh Zagorsky
Co-Founder,
Zagaran (Boston, MA)

“This capricious rule change is a major disincentive to startup R&D. If it stays in place, it is going to materially impact startups as they invest in product development which they cannot deduct as they go, and could even cause a cash crunch for many startups at a critical time.”

- Matt Caywood
CEO & CTO,
Actionfigure (Washington, DC)



“This currently does not affect IncentiLock but, for companies that it will, it is just craziness. Startups are struggling to raise money because investors are more cautious due to the economic uncertainty. So, a startup with R&D costs will be getting a triple hit: 1) costs of R&D have been exploding so this puts pressure on cash 2) because R&D costs are not deducted in the year paid, startups may have a tax liability where any liability would have been eliminated by the R&D spend (more cash out the door); and 3) cash from investment is harder than ever to raise given the uncertain economic conditions making investors nervous.”

- Jane Vancil
CEO,
Incentilock (Chesterfield, MO)

“When R&D can be immediately expensed, it allows small, early-stage technology companies to immediately re-invest those dollars in building more innovative solutions. When it's amortized over five years, it suddenly feels irrelevant. Not worth the time to track, because what matters to a startup is THIS year. We don't have the luxury of thinking in five-year blocks.”

- Lee Lance
Co-Founder & CEO,
Ecobot (Asheville, NC)