Oklahoma Research and Development Rebate Program FAQs

Who is eligible for the Oklahoma R&D Rebate Program?

In order to be eligible for the rebate an establishment must satisfy the following requirements:

- Have research expenses that satisfy the definition of research and development in the Financial Accounting Standards Board in the Accounting Standards Codification (FASB) that were incurred in the state of Oklahoma.
- Be in good standing with the Oklahoma Tax Commission, Secretary of State, and all other Oklahoma State Agencies.

Establishments meeting the above requirements are encouraged to apply.

What is the maximum rebate amount?

Oklahoma Research and Development Program allows establishments that meet eligibility requirements to claim a 5% rebate for qualified research expenditures that occurred in Oklahoma. A rebate may increase by 2% for establishments partnered with an institution of higher education in Oklahoma.

Does the increased rebate rate of 7% for R&D partnerships with Oklahoma institutes of higher education apply to all expenses eligible for the rebate or just the expenditures associated with the partnership?

The 7% rebate rate applies to all of the expenses eligible for rebate. There must be a contractual relationship between the entity and the Oklahoma institution of higher education.

How is research and development defined?

Financial Accounting Standards Board (FASB) defines research and development as:

Research is planned search or critical investigation aimed at discovery of new knowledge with the hope that such knowledge will be useful in developing a new product or service (referred to as product) or a new process or technique (referred to as process) or in bringing about a significant improvement to an existing product or process.

Development is the translation of research findings or other knowledge into a plan or design for a new product or process or for a significant improvement to an existing product or process whether intended for sale or use. It includes the

conceptual formulation, design, and testing of product alternatives, construction of prototypes, and operation of pilot plants.

FASB Guidance & Definitions

What does NOT constitute research and development?

- Routine product testing or quality control,
- Management or market research,
- Literary or artistic projects including films or publications,
- Exploration for natural resources,
- Software or computer systems integration, or
- Application of existing knowledge and processes to architectural or civil engineering projects.

Are costs that meet the applicable FASB definition of R&D eligible even if those costs would not constitute qualified research expenses under IRC section 41?

Yes, the use of FASB definitions of R&D are intended to supplant the use of definitions associated with IRC 41 for the R&D Rebate Program per SB1530.

Is development of new software, or development of new features and functionality for existing software, eligible R&D for purposes of the rebate?

Yes

What is the distinction between qualifying software development and the exclusion for software/computer systems integration?

Commerce will be reviewing FASB guidance and documentation to determine qualification. This includes program design and technological feasibility

What type of documentation is required?

Examples of acceptable project & technical documentation:

- **Project Records:** Design schematics, architectural roadmaps, blueprints, and functional specifications. **Experimentation Logs:** Sprint backlogs, lab notes, bug tracking updates, test plans, and failure/success analysis reports. Business **Component Linkage:** Documentation identifying the specific new or improved product, process, or software formula being developed.

Examples of acceptable financial documentation:

- **Wages:** Employee W-2s, payroll registers, and time-tracking logs or project-based allocations showing hands-on R&D, supervision, or direct support.

Supplies: Invoices, receipts, purchase orders, and general ledger accounts for tangible property used directly in testing or prototyping (excluding land or depreciable capital equipment). **Contractors**: Third-party service agreements, invoices, and Forms 1099-NEC reflecting amounts paid for domestic research services. **Computer/Cloud Leases:** Ledger entries and bills for cloud hosting or computer time-sharing tied directly to development and testing environments.

Examples of acceptable documentation of partnership with Oklahoma Institution of higher Education:

- MOU, contract, or any other documentation that substantiates a partnership with an Oklahoma institution of higher education.

Must a taxpayer separately track or report R&D expenses as R&D for financial-statement purposes or some other Accounting Standards Codification (e.g. ASC 350-40 or 985-20) to qualify for the rebate?

Claims for the rebate should have verifiable documentation. Whether they should be separately reported on financial statements is the decision of the accounting firm or expert that handles accounting tasks for the entity.

Is eligibility based on the nature of the expenditures satisfying the applicable FASB definition of R&D, regardless of whether the taxpayer separately identifies those costs as R&D in its financial statements as ASC 730 costs or general ledger?

Eligibility based on the nature of expenditures satisfying FASB definition of R&D that is substantiated by financial documentation. There is not a particular format or accounting method required to

For taxpayers whose R&D is accounted for and captured in their financial statements, would representative project records together with financial documentation be sufficient for an initial submission, with additional documentation available upon request?

Yes

Is a mutual confidentiality and non-disclosure agreement required?

No, it is entirely optional.

When does Commerce expect the program to be funded, if at all?

Unknown, this is entirely dependent on the Oklahoma legislature.

If funding is limited, how will available funds be allocated among eligible applicants, including whether timing of submission affects the allocation?

Applications will be reviewed in the order received for eligibility and completeness.

If funds are appropriated for the applicable program year, approved claims will be paid in the order received, subject to applicable statutory limits and the availability of funds. Timing of submission affects potential rebate awards. Commerce will process rebates in the order of submission (for complete applications meeting all statutory requirements) until the annual statutory limit is reached or the funds are exhausted whichever comes first.

If a claim can only be partially paid do to either of the aforementioned limits, that claimant will only receive a partial payment. There will not be any proration.

If there is an appropriation to the R&D Rebate fund how will claims be paid?

If there is an appropriation to the R&D Rebate fund, for the applicable program year, qualifying companies awarded a rebate will need to register with OMES as a vendor. Once registered as a vendor the company can decide to have an electronic transfer or a physical check written and mailed to them.

What wage base should taxpayers use for qualified labor costs?

Fully burdened compensation with documentation.

What type of costs are intended to be included within “indirect costs”?

Indirect costs must have a clear nexus in Oklahoma R&D activity (substantiated with documentation) and not just be general costs. Examples of indirect costs may include facility related costs attributable to Oklahoma R&D activities such as rent, utilities, and depreciation on an R&D facility or laboratory. However, if only a portion of the facility is used for R&D only that portion of the expenses associated with the facility would be eligible.

How will I know if funds have been appropriated to the program?

Those who have submitted applications and those who’ve signed up for the OK R&D Rebate Program mailing list will receive email updates if funds are appropriated to the Oklahoma Research and Development Rebate Fund.

Can the R&D wages for employees who work remotely in Oklahoma be included in the qualified research expenses, or does the program only count work performed at the Oklahoma facility?

The program counts any eligible R&D rebate expenses (based on FASB) incurred in the state of Oklahoma so, since those employees are Oklahoma based eligibility would be based on the nature of the work performed and whether that satisfies the FASB definition.

Are there any specific industries or businesses intended to be excluded from eligibility for the rebate?

No