

No Credit Due

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Dynetics, Inc. is an engineering firm based in Huntsville, Alabama that performs research and development on national security, cybersecurity, satellite, and related issues. Dynetics filed a tax refund suit in the U.S. Court of Federal Claims, claiming that it was entitled to tax credits for work performed on over 100 contracts. The IRS disagreed, stating that under Section 41 of the IRS code—which governs credits for certain research activities—tax credits are not allowed if the work performed was funded by any grant, contract, or otherwise paid for by another person or government entity. The court agreed to review seven of the 100 contracts.

Both parties filed cross-motions for partial summary judgement – raising two issues: (1) whether payment was contingent on the success of research, and (2) whether Dynetics retained substantial rights in the results of the research?

The CFC ruled in favor of the Government on both issues. First, Dynetics, argued that payment for its research for its various clients was not guaranteed because each individual contract contained either an inspection clause or a warranty clause providing that if its research results were unsuccessful, Dynetics would not be paid. However, the court rejected that argument, concluding that “Dynetics would be paid regardless of whether its research was successful or not.”

Second, Dynetics claimed substantial rights to the results of its research conducted for its various clients and that it may therefore tax credits for its incurred expenses under its contracts. Again, the court disagreed with this contention, concluding that Dynetics held no substantial rights to the results of its research for its contracts with the University of Alabama, Huntsville (UAH01) and the Defense Intelligence Agency – Missile & Space Intelligence Center (NT001). The court pointed to language from the UAH01 Contract showing that Dynetics forfeited “‘all rights in the results of its work’ to the University.” The UAH01 Contract also designated Dynetics research as “work for hire,” allowing the company “no rights in that work.” Finally, the NT001 Contract required Dynetics to research “highly classified intelligence” on foreign weapons systems and for which, without government authorization, Dynetics was not entitled to retain any results of research containing intelligence information. Therefore, the CFC granted the Government’s motion for partial summary judgment, and denied Dynetics’s cross-motion for partial summary judgment.

Read full decision [here](#).