



New IRS Forms for Applying the R&D Tax Credit to Payroll Taxes

Earlier this year, we reported that the R&D tax credit has been permanently extended. In addition, beginning in 2016 eligible small businesses with \$50 million or less in gross receipts may claim the credit against their AMT liability, and startups with \$5M or less in gross receipts can apply the credit toward up to \$250,000 of the employer's payroll tax (i.e., FICA) liability.

We have been receiving inquiries as to how the payroll tax offset will be implemented for startups with \$5M or less in gross receipts. The following is the latest development concerning IRS guidance.

According to an IRS representative, applying the research credit toward the employer portion of Social Security tax will involve a new payroll tax form. The IRS plans to release by January 2017 a draft of Form 8974, Qualified Small Business Payroll Tax Credit for Increasing Research Activities, the new form for processing the credit against Social Security tax.

Form 941, Employer's Quarterly Federal Tax Return, and Form 6765, Credit for Increasing Research Activities, are to be updated by January 2017 to accommodate the research credit against Social Security tax.

The amount of the credit is to be determined on Form 6765 and then reported on Form 8974, according to the IRS representative. For each quarter with Social Security tax liability to which the credit is applied, a Form 8974 is to be sent with the Form 941 submitted for that quarter.

Think LLP will continue to monitor these developments, as more taxpayers than ever can now benefit from the R&D credit. Think, LLP has the expertise and experience to help you claim these credits.

Please consider Think, LLP to assist you evaluating and quantifying your development activities to maximize your R&D Credit. Give us a call or email us with your questions. We look forward to hearing from you.

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