

New Option for Claiming Research Credit

Cross References

- IR-2017-93, May 3, 2017

The IRS is reminding eligible small business startups that they can now choose to apply part or all of their research credit against their payroll tax liability instead of their income tax liability. This new option is available for any eligible small business for taxable years beginning after December 31, 2015. Before 2016, the research credit could only be claimed as a credit against income tax liability. The option to elect the new payroll tax credit may benefit eligible startups that have little or no income tax liability.

To qualify for the new option for the 2016 tax year, a small business must have gross receipts of less than \$5 million and could not have had gross receipts prior to 2012. A small business meeting this standard with qualifying research expenses can then choose to apply up to \$250,000 of its research credit against its payroll tax liability.

To choose this option, file Form 6765, *Credit for Increasing Research Activities*, along with a timely-filed business income tax return (Schedule C (Form 1040), Form 1120, Form 1120-S, Form 1065, etc.). Business taxpayers currently on extension for 2016 still have time to make the choice on a timely-filed return. A number of special rules and computations apply to this credit. See the instructions to Form 6765 for details.

Eligible small businesses that already filed their 2016 tax return and failed to choose this option still have time to make the choice for 2016. Under a special rule for tax year 2016, the payroll tax credit option can be elected on an amended return that is filed by December 31, 2017.

After choosing this option, either on an original or amended return, a small business claims the payroll tax credit on Form 8974, *Qualified Small Business Payroll Tax Credit for Increasing Research Activities*, and attaching it to its payroll tax return (such as Form 941, *Employer's Quarterly Federal Tax Return*).

See Notice 2017-23 for further details on how and when to claim the credit.