



# Understanding Your Eligibility for R&D Tax Credit

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A Complete Guide



# What is the R&D Tax Credit?

The R&D Tax Credit is a nifty little Tax Credit that companies can utilize to help offset income tax liability **OR** payroll tax liability, **if eligible**.

# Can I claim the R&D Tax Credit??



## You **MAY** be eligible **IF** your company is:

- Designing and developing NEW products OR new and improved products and processes
- The project/business component is technological in nature
- There is a technical uncertainty
- You undergo a process of experimentation
- Your company maintains the rights and is at risk for the work being performed
- Work is performed in the United States (internal labor and contractors)



# Eligible Expenditures



Eligible expenditures are expenditures that were utilized and put forth toward the design and development of your R&D Efforts.

## Wages (US Internal Labor)

- Actively performing the R&D Activity
- Supervising those performing the R&D Activity
- Supporting those performing the R&D Activity

## Supplies

- Physical tangible item consumed during the R&D process (consumption is in the US)
- Items purchased overseas may still qualify as long as it is consumed in the R&D process within the US

## Leased Computing Costs

- Cloud hosting storage environments utilized for new Development Work
- Thins AWS or Google Cloud


## Contractors

- US based parties in which your business pays to perform the R&D work for you
  - Your business MUST maintain the rights to the work performed AND
  - Your business MUST be at risk for the work being performed




# Utilization of R&D Tax Credit



 Income Tax Liability Offset

OR

 Employer Portion of Payroll  
Tax Liability (IF ELIGIBLE)

## Federal Credit Utilization - Income Tax Liability

- Federal R&D Tax Credit is intended to offset any income tax liability that is generated on the company's Federal Tax Return
- **Any unused credit may be carried forward for up to 20 YEARS**



# Payroll Tax Liability Offset



If your company is an eligible qualified small business you may be eligible to utilize your R&D Tax Credit to offset the employer portion of payroll tax liability if the following two criteria are met:

- Current Year Gross Receipts are under \$5 million
- No gross receipts 5 years prior



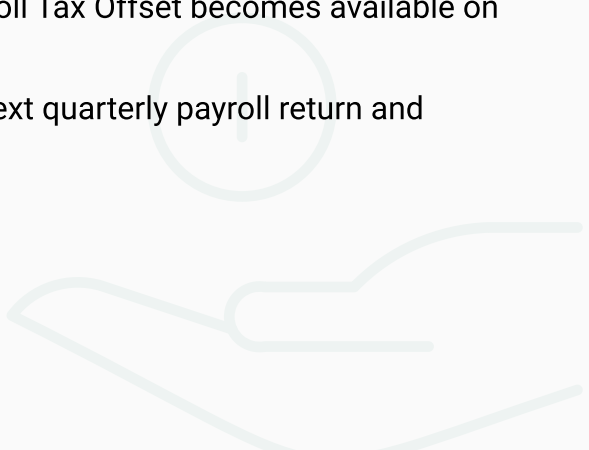
## Payroll Tax Offset allows

- Offset up to \$250,000 of employer portion of payroll taxes on quarterly payroll returns
- Note: For Tax Year 2023 this offset increase to UP TO \$500,000 (Tax Returns to be done in 2024 calendar year)



## Availability

- The Payroll tax offset is available in the quarter immediately following when the company's Federal Tax Return is filed
- Example: Tax Return filed April 15(Quarter 2) R&D Payroll Tax Offset becomes available on the Quarter 3 Quarterly Payroll Tax Return
- Any unused R&D Credit will be carried forward to the next quarterly payroll return and continue to do so until it is utilized in its entirety.



# How do I actually claim the payroll tax liability offset??



In order to claim the payroll tax offset the following will need to occur:

- Your company's payroll provider will need a copy of your Form 6765
- This form can be found your Tax Return package from your tax preparer
- When your payroll provider files your quarterly payroll tax return they will be able to apply the R&D Tax Credit toward the employer portion of payroll taxes
- Remember this credit is available in the quarter immediately following when the tax return is filed so you'll want to send your payroll provider a copy of Form 6765 ASAP
- Once the quarterly return is filed, the IRS will be responsible for issuing a refund to your company
- Your Tax Preparer will not be responsible for keeping track of the amount credit utilized each quarter, nor will they be responsible for providing the refund to your company

 Note: The IRS may take some time to actually issue the refund.



# Income Tax Liability

# Payroll Tax Credit Offset

R&D Credit study determine \$25,000 R&D Tax Credit - claimed on Form 6765(with company tax return)



50,000 Income Tax Liability on company return



\$25,000 R&D Tax Credit used to offset \$50,000 Income Tax Liability bringing total income tax liability on return down to \$25,000

R&D Credit study determine \$25,000 R&D Tax Credit - claimed on Form 6765(with company tax return)



\$25,000 employer portion of social security and medicare tax on Quarterly Payroll Tax Return (Form 941. See next tab for an example of this form)



\$25,000 R&D Tax Credit used to offset \$25,000 Payroll Tax Liability bringing total Payroll Tax Liability on Quarterly Payroll return down to \$25,000



Company to receive refund check of overpayment of employer portion of social security taxes from IRS

**i** Please note that the payroll tax offset example above is for Tax Years beginning after December, 31st, 2021. For Tax Years prior to December 31, 2023, the payroll tax offset goes against the employer portion of Social Security Taxes on the quarterly returns only.

# Form 941



This form is filed quarterly by your payroll provider and the payroll provider. Once the payroll provider has a copy of Form 6765, the payroll tax credit offset will be available in the quarter immediately following with the company tax return was filed. The Payroll provider will utilize form 6765 to claim the payroll tax credit offset on the form below each quarter. Any unused R&D Tax Credit not used, will be carried forward to the following quarterly payroll tax return.

Form 941 (Page 1) for 2023. It includes sections for 'Tell us about your business', 'Sign here', and 'Paid Preparer Use Only'. The employer identification number is 450122.

Form 941 (Page 2) for 2023. It includes sections for 'Answer these questions for this quarter', 'Tell us about your deposit schedule and tax liability for this quarter', and 'You MUST complete all three pages of Form 941 and SIGN it.' The employer identification number is 451222.

Form 941 (Page 3) for 2023. It includes sections for 'Answer these questions for this quarter', 'Total social security and Medicare taxes', and 'Section 512(b) Notice and Demand—Tax due on unreported tips'. The employer identification number is 450122.



# State R&D Tax Credits

# Is the R&D Tax Credit **ONLY** available on the Federal aspect??



The R&D Tax Credit is available for both Federal and State.

Each state has its own rules and requirements to be eligible to claim. Your R&D Tax Credit expert can ensure that any R&D Tax Credit available on a state basis for your company is calculated and claimed appropriately when your tax returns are filed.



## Common State R&D Tax Credits Available:

This is not a complete list of available State R&D Tax Credits. This is a brief example of some commonly utilized State R&D Tax Credits.

- California
- Illinois
- Ohio
- Wisconsin
- Indiana
- Georgia
- Iowa



**i** Note: Some other state credits are on an application basis and need to be applied for by specific deadlines in order to be eligible to claim.

Not sure where to start?  
Feeling overwhelmed?

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