



# RESEARCH & DEVELOPMENT

TAX CREDIT INFO SHEET



## ELIGIBILITY REQUIREMENTS

### Do you satisfy all of the following?

Qualifying activities must tie directly to a new or improved business component.

There must be a process of experimentation.

Research must be technological in nature. Processes must apply the principles of the “hard sciences.”

Research is undertaken for the purpose of discovering information, intended to eliminate uncertainty surrounding the development of a business component.

## QUALIFIED EXPENSES

### Those that support the research process, like:



Employee wages



Supplies consumed



Third-party contractors

## PAYROLL OFFSET DETAILS

### For credit years 2023 and beyond, it can be offset against:

The **6.2%** Social Security tax and the **1.45%** Medicare tax up to a combined maximum of **\$500k** per year.

▶ A **business component** can be a process, formula, technique, invention, or software

▶ **Hard sciences** include engineering, physics, biology, computer science, chemistry



## R&D TAX CREDIT

A dollar-for-dollar credit that is (by default) an income tax credit. It can be carried forward up to 20 years. Some companies are eligible to use the credit against their payroll tax liability.

## ELIGIBILITY REQUIREMENTS: PAYROLL

### A business cannot have:

More than five million dollars of gross revenue (under the method of accounting used for tax purposes) in the current year.

**AND**

More than five total years since business inception where the business had gross revenue (including interest, dividends, and other income).

## WHEN CAN I USE IT?

Start claiming your payroll credit the quarter after your income tax has been filed.

### EXAMPLE



Taxes filed  
September



Claim on  
Q4's 941

## HOW QUICKLY WILL I SEE IT?

This varies based on two factors: **the size of the credit and the employer's social security tax.** Therefore, it may take several quarters for the full credit to be received.

## SHOULD I HAVE A FORMAL STUDY DONE?

### Yes, because:

- ✦ It maximizes the impact of the credit.
- ✦ It will provide audit support if needed.
- ✦ It will streamline the process.

▶ If your business has had **at least \$1 of gross income every year** but **hasn't had more than \$5 million of gross revenue in any of those years**, then it would be eligible for the payroll tax offset for the first five years of existence.

▶ In **year six and beyond**, you would only be able to claim the income tax credit.

## USE FORM 8974

For companies electing the payroll tax offset, Form 8974 is then filed with your quarterly payroll tax returns (941s) to capture the credit.

## HOW MUCH WILL I PAY FOR A STUDY?

A business can expect to pay a percentage of the credit. This typically ranges **20-30%**. This likely includes audit support, the full report they prepare, and a pro forma Form 6765.

## HOW IS THE STUDY USED?

When you use **BELAY** to file your taxes, and incorporate the formal study, we:

- ✦ Include it in year-end tax documents, using our safe and secure process in Onvio.
- ✦ Include the prepared Form 6765 with the election to utilize the credit against your payroll tax liability, should you be eligible and choose this option.

## R&D TAX CREDIT

Reach out to us to get started on a plan to claim the R&D Tax Credit. Additionally, you can read more in-depth details on the R&D Credit on the [BELAY blog](#).

**GET STARTED**

## HOW WE HELP:

▶ **BELAY's Tax Team** can support both business tax and personal tax filing needs.

▶ **Claiming the R&D Credit** to offset payroll tax can provide a positive boost in cash flow for smaller companies.

▶ We will **prompt you to share details surrounding any R&D-related items we spot on your P&L**. However, the IRS will be requiring additional and more detailed documentation to support any R&D tax credit claims going forward.

Given these new requirements, **we strongly recommend that you have a formal R&D study done**. This ensures we have the necessary information to substantiate your claims and optimize your credit calculations.





ELITE SUPPORT FOR LEADERS WHO **REFUSE BUSYWORK**