

Research and 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.
- 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.
- There must be a process of experimentation.

QUALIFIED EXPENSES

Those that support the research process, like:



Employee wages



Supplies consumed



Third-party contractors

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

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

PAYROLL OFFSET DETAILS

For credit years prior to 2022, it can be offset against:

- The 6.2% employer portion of the Social Security tax, up to \$250k per year.

New for 2023:

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

R&D Tax Credit

Accountfully

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.

Research and Development Tax Credit Info Sheet (Cont'd)



ELIGIBILITY REQUIREMENTS: PAYROLL

A business can not 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

If your business has had at least \$1 of gross income every year but hasn't had more than \$5 million dollars 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.

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 a 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.

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.

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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 We Help:

HOW IS THE STUDY USED?

When you use Accountfully 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 elect to utilize the credit against your payroll tax liability, should you be eligible and choose this option.

Accountfully'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, but it is up to you to take charge with a study and/or next steps in claiming the credit.

R&D

Next Steps:

Accountfully

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 Accountfully blog.