



## 2017 RESEARCH TAX CREDIT PAYROLL OFFSET CLAIMS: RECENT UPDATES

February 2018

### Summary

Beginning in 2016, qualified small businesses now have the ability to offset up to \$250,000 of their FICA payroll taxes with their federal Research Tax Credits (RTCs). With the first available tax year for this provision behind us, it has proved itself a very beneficial cash savings opportunity for start-ups. As companies plan for 2017 tax return filings, there are some recent developments and timing considerations to note.

### Details

#### Revised Form 8974

In December 2017, the Internal Revenue Service (IRS) released a revised version of Form 8974, Qualified Small Business Payroll Tax Credit for Increasing Research Activities. Taxpayers use Form 8974 to determine the amount of RTCs they can claim as a payroll offset on their employment tax return, which must be attached to their payroll tax return (i.e., Form 941, Employer's Quarterly Federal Tax Return).

This most recent version of Form 8974 gives taxpayers the option of reporting RTCs on Form 943/943-PR (agricultural employers) or Form 944/944(SP) (certain small employers). The prior version was limited to Form 941, 941-PR or 941-SS. Parts 1 and 2 of the form have also been updated in order to help taxpayers keep track of prior year RTCs that have been claimed and are available for payroll tax offset.

#### Payroll Providers

Some payroll providers have already started offering real-time RTC offsets to FICA as a part of their payroll services and others are in the process of adding this functionality to their systems. The idea is to make it easier for taxpayers to see the benefit from claiming the payroll offset as soon as possible, without paying taxes in upfront.

Without this real-time payout option, taxpayers should file for a refund of FICA tax paid that is available for offset by RTCs on their quarterly Form 941 filings. Generally, refunds are paid within 45-60 days.

#### Timing Considerations

Taxpayers may utilize RTCs to offset FICA taxes on their Form 941 or related form filing the quarter following the filing of their income tax return. They should ensure the appropriate elections are made. To accelerate the timing of utilization and cash benefit, eligible taxpayers should consider filing their income tax returns with appropriate RTC elections by March 31.

### BDO Insights

After its implementation in 2016, the Payroll Tax Offset provision for RTCs has proven itself very beneficial for start-up companies. Taxpayers should evaluate their eligibility to take advantage of this meaningful cash savings opportunity for 2017 and consider accelerating their income tax return filings in order to benefit from the first available offset from RTCs on their Q2 Form 941 filings. When filing for the payroll tax offset on their quarterly

payroll tax returns, taxpayers should ensure they are utilizing the most recent Form 8974 released by the IRS which must be attached in order to receive the offset.

BDO offers a simple, complimentary review that provides businesses information needed to make an informed decision about whether and how to pursue RTCs and the payroll offset. Our team of R&D software developers, engineers, scientists, accountants, and lawyers have helped thousands of companies claim over \$3 billion in R&D benefits.

For more information on what companies are eligible check out the R&D FAQ section or use our R&D Tax Credit Calculator.

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To find out if you are receiving the full benefit of the R&D tax credit, use our tax credit calculator:

**R&D TAX CREDIT CALCULATOR**

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## **The R&D Tax Credit: Explained**



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