IRS Releases Draft of New Form 6765 – Research & Development Tax Credit

August 6, 2024

IRS Form 6765, *Credit for Increasing Research Activities*, is used by thousands of U.S.-based businesses every year to claim Research and Development (R&D) tax credits. On June 21, 2024, nine months after releasing a preview of its proposed changes to Form 6765, the IRS released its new draft version of the form. The new draft is a slightly simplified version of the initial proposal, and it includes a one-year transition period for the 2024 tax year.

The initial draft of the new Form 6765 proposed several changes, including:

- A question on whether the taxpayer is part of a controlled group;
- Additional questions related to the payroll tax credit for eligible taxpayers;
- Inclusion of the number of business components in the taxable year;
- Inclusion of the amount of officer wages included in qualified research expenditures (QREs);
- A question around whether there are new expense categories in the current year;
- Disclosure of any ASC 730 amounts; and
- The required listing of all business components, details on each project, and

allocation of QREs for each business component.

The IRS stated that the goal of these updates was to provide taxpayers with a more consistent, predefined format while improving the information received for tax administration. The new changes are optional for 2024 but will be effective for the 2025 tax year, requiring taxpayers to provide quantitative and qualitative business component details, which have never previously been required.

On the new Form 6765, the business component detail will be documented by most taxpayers in Section G, but will be "optional" for:

- "Qualified Small Business" taxpayers that claim a reduced payroll tax credit, and
- Taxpayers with total QREs of $1.5 million or less and gross receipts of $50 million or less.

In further taxpayer concessions, the IRS has reduced the amount of information requested of taxpayers in Section G of the Form 6765 from the original proposal. For example, taxpayers will now need to report 80% of total QREs in descending order by amount per business component, up to 50 business components. The updated draft form also eliminated the need to detail whether a business component is new or improved, or was bought, licensed or leased. Finally, and perhaps most significantly, the IRS has eliminated the narrative requirement of providing a detailed description of each qualified employee.

While the recent changes will certainly alleviate some taxpayer burden, considerable time and effort will still be required to complete the form. It is strongly recommended that companies work with an advisor, such as Anchin's R&D Tax Credit Group, to assist with the process and ensure their business component details are accurately represented on the new Form 6765 and are in compliance with the IRS requirements.

*To learn more about the changes to Form 6765 and how they might impact your business's ability to claim Research & Development tax credits, please contact **Yair Holtzman**, Partner and Leader of Anchin's **Research & Development Tax Credits group**, or your Anchin Relationship Partner.*