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Page Title: IRS Proposes Changes to Form 6765 for the R&D Tax Credit | [INSERT RELATED SERVICE] | [INSERT FIRM NAME]

Meta Description: [NAME OF FIRM] outlines potential revisions to IRS Form 6765 with our comprehensive article. Learn about the proposed changes, including two new sections and additional questions, while understanding the form's purpose and filing requirements.

Headline: IRS Proposes Changes to Form 6765 for the R&D Tax Credit

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The IRS released [proposed revisions to Form 6765, Credit for Increasing Research Activities](#), in September 2023 and asked for public comment. The revised form has two new sections, as well as additional questions at the beginning. The comment period closed at the end of October 2023. The IRS has not stated whether or when it will incorporate any of the proposed changes. The current version of Form 6765, dated December 2023, does not include the changes. The IRS could begin using the revised form for tax year 2024. This article describes Form 6765's purpose and filing requirements, discusses the possible changes and provides some best practices for completing and filing the form.

What Is Form 6765?

Taxpayers can use [Form 6765](#) to claim the research and development (R&D) credit provided by [§ 41 of the Internal Revenue Code \(IRC\)](#). This credit allows taxpayers to reduce their tax liability based on certain research expenditures. It is not limited to businesses that perform scientific research. It includes a wide range of activities, including:

- Developing new formulas or processes, including software development;
- Redesigning or improving existing processes or products;
- Building infrastructure for new processes or products; and
- Paying specialists, such as designers or engineers, to engage in such activities.

In its [current state](#), Form 6765 has four sections:

- Section A asks for information needed to claim the regular R&D credit under IRC § 41(a). It gives taxpayers the option to elect a reduced credit amount under [IRC § 280C](#).
- Section B allows taxpayers to choose the Alternative Simplified Credit (ASC) found in § 41(c)(4).
- Section C requests additional information based on the taxpayer's business structure, such as an S corporation or trust.
- Section D applies to qualified small businesses (QSBs) that are choosing the payroll tax credit under § 41(h).

The form only asks taxpayers to quantify their research activities. It does not ask for documentation or other evidence that the taxpayer's activities meet the requirements of § 41. The IRS, however, has begun to demand additional information that can establish eligibility for the R&D credit. Several courts have backed the IRS's position.

Who Must File Form 6765?

Any taxpayer may use Form 6765 to claim the R&D tax credit. According to the [instructions for the form](#), S corporations and partnerships must use this form. Other taxpayers might not need to use Form 6765:

- Taxpayers can use [Form 3800, General Business Credit](#), “if their only source for this credit is a partnership, S corporation, estate, or trust.”
- Trusts and estates that can allocate the credit to their beneficiaries may use Form 3800 or Schedule K-1 to Form 1065.

What Are the Proposed Changes to Form 6765?

The [revised Form 6765](#) has four changes:

- The option to elect the reduced credit under § 280C now appears before Section A.
- Also before Section A, the form asks whether the taxpayer belongs to a controlled group or is a business under common control.
- Schedule E consists of five questions covering “Other Information.”
- Schedule F is the most significant change. It asks for qualitative information about the taxpayer’s research activities, such as the business codes and tax ID numbers of businesses seeking the credit, descriptions of the research or experimentation and various allocations of qualified research expenditures.

When Do the Changes Take Effect?

No one knows for certain when or if the changes will take effect. The IRS has not provided an update on the proposed changes to Form 6765. It published the proposed revisions on September 15, 2023, and sought public comments until October 31. It issued a revised Form 6765 in December 2023, followed by revised instructions in January 2024. Neither the form nor the instructions included the changes from September.

The IRS has stated that it is considering requiring the use of the revised Form 6765 for tax year 2024. It could decide not to use the revised form at all, though, or it could publish new proposed changes.

Best Practices for Form 6765

Whether the IRS formally adopts the revised Form 6765 or not, the fact that it published it indicates that the agency intends to scrutinize R&D credit claims closely. Documentation of all research-related expenditures is therefore critically important. Taxpayers should be able to demonstrate that they have satisfied § 41’s requirements, including:

- Demonstrating that they meet the IRS’s criteria for qualified research activities (QRAs) and qualified research expenditures (QREs);
- Allocating QREs to the business components that incurred them; and
- Identifying the individuals involved in QRAs and describing the goals of their research.

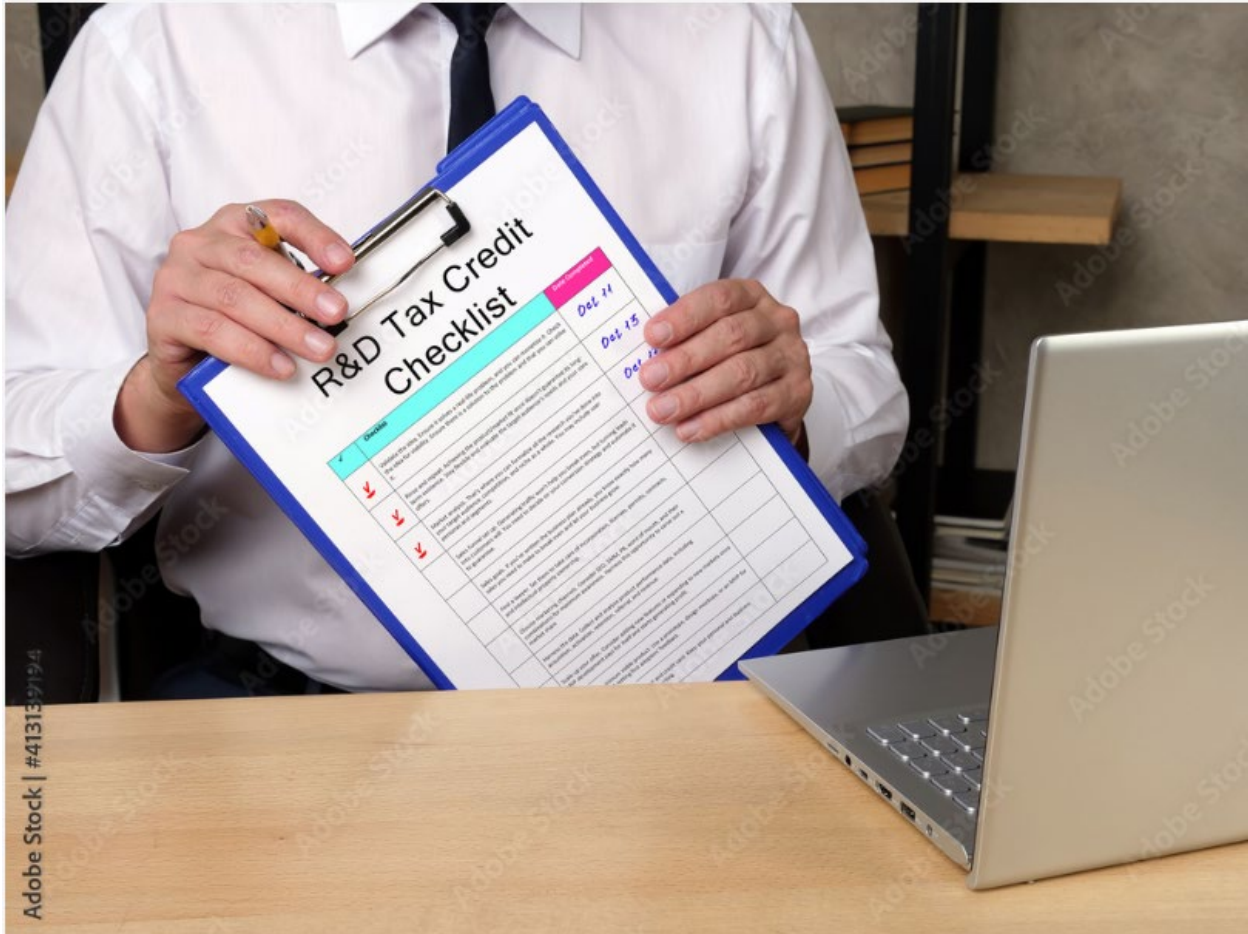
Learn More About R&D Credits and IRS Filing Requirements

Businesses may have access to a wide variety of tax credits, but the rules surrounding those credits are often quite complicated. A tax professional can help you identify and understand your options.

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If you have any questions or would like additional information, please contact [NAME] in our [DEPARTMENT] at [NUMBER] or [EMAIL].

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