

The IRS Releases Revised Draft Form 6765

It's Good News for Taxpayers

by Mark McGee

Back in September 2023, the IRS proposed changes to Form 6765—the required documentation to calculate and claim the R&D tax credit. Given recent demands for increased tax transparency, the proposed revisions were hardly surprising: The IRS sought that taxpayers disclose more information on a granular level. According to the proposal, taxpayers would be required to disclose detailed qualitative and quantitative information for every business component generating a credit. For taxpayers, this presented additional burdens in claiming the credit—tracking QREs to specific business components, collecting and retaining minute levels of details, and of course, documenting all of it. Aware of these hardships, the agency asked stakeholders if the Business Component Section should be optional for certain taxpayers.

Last week, on June 21, the IRS seemingly reached a verdict. In an effort to alleviate the taxpayer's burden, provide a consistent, familiar format, and improve the information received by the tax administration, the agency released a draft Form 6765 and the Business Component Section—formerly Section F, now Section G—will indeed be optional for certain taxpayers. The IRS has determined that for “qualified small businesses,” those that claim a reduced payroll tax credit; or for taxpayers which have total qualified research expenditures (QREs) of \$1.5 million or less, and gross receipts of \$50 million or less, the detailed section will be voluntary.

Perhaps more surprising is that the IRS has cut back on the number of business components and the amount of information that must be documented in Section G. Now 80% of total QREs, in descending order by amount per business component—but no more than 50 business components—should be reported. The agency has also relaxed the required information. You no longer have to report whether a business component is new/improved, a sale, license, or lease, and on original returns, you don't have to construct a narrative that describes what was trying to be discovered. Yet to be released: Instructions detailing the definitions for officers, controlled group reporting, and business component descriptive names. The revised Section G will be optional for all filers for tax year 2024 and become effective in 2025.

How to Prepare

While relaxed reporting requirements are always welcome, the new draft Form 6765 still requires some forethought and legwork. Here's how to prepare:

Know Who You Are

Do you fit the bill for a “qualified small business”? How much do your QREs total?

Depending on answers to these questions, you may be able to opt out of the Business Component Section entirely.

Consider Your Accounting

If you are required to fill out the Business Component Section, you may want to streamline your accounting, so you can accurately assign QREs to specific business components. Evaluate additional methods of tracking R&D expenditures at a more granular level, such as implementing time-tracking or job-costing strategies.

Report Contemporaneously

If the IRS expects to see QREs on a business component level, contemporaneous documentation is a necessity. Reporting in real-time is the best way to collect and retain the minute level of detail you'll need from subject-matter experts, and officers involved in R&D. It's also the best way to ensure accuracy and produce robust documentation.

Enlist the Help of R&D Tax Credit Experts

With upcoming changes and increasing scrutiny on the horizon, navigating the R&D tax credit scene is no longer a job for tax generalists. The best (and easiest) way to claim R&D tax credits is by working with specialists who know the playing field. R&D tax credit experts can help meet the demands of business-component reporting and produce robust, accurate claims. R&D tax credit professionals also add depth and breadth to any tax team, as they maximize credits, and often, identify opportunities that were missed in the past.

