**BizBoost News**

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**New Research & Development Credit Documentation Requirements**

In the fall of 2021, the IRS released guidance regarding new documentation requirements for companies looking to claim a Research & Development (R&D) credit refund. The extra documentation requirement is effective beginning in January 2022, and the information must be submitted with the annual tax return. The goal of the new requirements is to help IRS process R&D credit refunds more quickly and efficiently.

There are five items that will be needed for all R&D refund requests, using Form 6765:

1. All business components
2. All research activities performed
3. All individuals who performed each research activity
4. All information each individual looked to discover
5. Total qualified employee wage, supply, and contract research expenses

A business component is defined as “any product, process, computer software, technique, formula, or invention which is to be held for sale, lease, or license, or used by the taxpayer in a trade or business of the taxpayer.” Taxpayers can disclose the relevant business components without going into details about how each one complied with the four-part test associated with the R&D credit.

The four-part test states that a claim must refer to an activity that is technological in nature, part of a process of experimentation, looks to eliminate uncertainty, and has a specific purpose or goal. As part of clarifying who was involved in research activities, the new information is required to include the purpose or goal of anyone who was part of the process. Additionally, IRS has stated that only titles or positions need to be provided for the individuals involved in the refund claim, but that companies should be prepared to provide full names if the IRS performs a more substantive review.

Because taxpayers will need to adjust to the new requirements and may provide partial or incorrect information initially, IRS is giving a grace period in the first year to fully comply with the new requirements. This grace period has been extended to 45 days and is only effective for the first year of transition. If the IRS determines that any part of the information is incomplete or incorrect, they will notify the taxpayer in writing, and missing information can be submitted via fax or mail. If the updated documentation is not supplied within 45 days, the refund claim will be denied – and after January 9th, 2023, any originally-filed incomplete refund claim will be rejected.

It's important to note that IRS is still accepting public comments regarding these new rules, so it’s possible the instructions could be revised based on any modifications as a result of this input. The American Institute of Certified Public Accountants (AICPA) has also formally requested that the start date of the new requirements be pushed back to allow more time for the public to comment, but IRS has not yet agreed to this recommendation. This new documentation requirement may create additional complications, so it will be critical for taxpayers to ensure that they understand the new requirements and submit the correct information on a timely basis.

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In the fall of 2021, the IRS released guidance regarding new documentation requirements for companies looking to claim a Research & Development (R&D) credit refund. Learn more in our latest blog article: [link]

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Learn more in our latest blog article: [link]

#BusinessTip: The extra documentation requirement for companies looking to claim a Research & Development (R&D) credit refund is effective beginning in January 2022, and the information must be submitted with the annual tax return. Click here to learn more: [link]

DID YOU KNOW… A business component is defined as “any product, process, computer software, technique, formula, or invention which is to be held for sale, lease, or license, or used by the taxpayer in a trade or business of the taxpayer.” Learn more here: [link]

The four-part test associated with the Research & Development Credit states that a claim must refer to an activity that is technological in nature, part of a process of experimentation, looks to eliminate uncertainty, and has a specific purpose or goal. Learn more about the new documentation requirements for R&D here: [link]

DID YOU KNOW… The American Institute of Certified Public Accountants (AICPA) has formally requested that the start date of the new Research & Development Credit requirements be pushed back to allow more time for the public to comment, but IRS has not yet agreed to this recommendation. Learn more in our latest blog article: [link]

The new documentation requirements for the Research & Development Credit may create complications, so it will be critical for taxpayers to ensure that they understand the new requirements and submit the correct information on a timely basis. Sign up for our newsletter to learn more about these changes: [link]