



Additional R&D Tax Credit Benefits - Offset Payroll Taxes

New businesses or start-up companies may be eligible to apply the R&D tax credit against their payroll tax for up to five years.

The R&D credit was permanently extended as part of the Protecting Americans from Tax Hikes (PATH) Act of 2015. It includes some enhancements starting in 2016, including offsets to alternative minimum tax and payroll tax for eligible businesses. The credit is still based on credit-eligible R&D expenses, but offsets apply to only those costs incurred beginning in 2016. The new payroll tax offset allows companies to receive a benefit for their research activities regardless of whether they are profitable.

The new payroll tax offset is available only to companies that have:

- Gross receipts for five years or less. A company isn't eligible if it generated gross receipts prior to 2012.
- Less than \$5 million in gross receipts in 2016 and for each subsequent year the credit is elected.
- Qualifying research activities and expenditures.

The payroll tax offset will be available for qualified expenses incurred in 2016. The credit must be calculated and shown on a taxpayer's 2016 federal income tax return, and the portion of the R&D credit that will be applied to offset payroll taxes will need to be identified and elected when that return is filed in 2017. The payroll tax offset will be available on a quarterly basis beginning in the first calendar quarter that begins after a taxpayer files their federal income tax return. Taxpayers would need to file their 2016 federal income tax returns by March 30, 2017, to apply the payroll tax offset to the second quarter. As a result, the earliest taxpayers are likely to see a benefit is July 2017, when they file their quarterly payroll tax returns for the second quarter (Form 941).

The maximum benefit an eligible company is allowed to claim against payroll taxes each year under the new law is \$250,000.

For your free analysis and estimate of your company's R&D credit please contact:

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