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to the Internal Revenue Service. During National Small Business Week ...

May. 03, 2017



Eligible small business startups can now choose to apply part or all of their research credit against their payroll tax liability, instead of their income tax liability, according to the Internal Revenue Service. During National Small Business Week—April 30 to May 6—the IRS is highlighting tax benefits and resources designed to help new and existing small businesses.

This new option will be available for the first time to any eligible small business when filing its 2016 federal income tax return. Before 2016, the research credit, like most tax credits, could only be taken against income tax liability. The option to elect the new payroll tax credit may especially benefit any eligible startup that has little or no income tax liability.

To qualify for the new option for the current tax year, a small business must have

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See the instructions to Form 6765 for details.

For eligible small businesses that already filed and failed to choose this option, there is still time to make the choice. Under a special rule for tax-year 2016, they can still do so by filing an amended return. This return must be filed by Dec. 31, 2017.

Amended return forms vary depending upon the type of business. Sole proprietors file [Form 1040X](#). Regular corporations file [Form 1120X](#). S corporations file [Form 1120S](#), identifying it as a corrected return (line H(4)). For information on amending a partnership return, see the instructions to [Form 1065](#).

After choosing this option, either on an original or amended return, a small business claims the payroll tax credit by filling out [Form 8974](#), Qualified Small Business Payroll Tax Credit for Increasing Research Activities. This form must be attached to its payroll tax return, usually [Form 941](#), Employer's Quarterly Federal Tax Return.

Further details on how and when to claim the credit are in [Notice 2017-23](#), available on IRS.gov. The notice also provides interim guidance on other technical issues, such as controlled groups and the definition of gross receipts.

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