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eligibility requirements of the Research Tax Credit Payroll Tax Offset. The Treasury Inspector...

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The watchdog agency tasked with overseeing the IRS reports that the agency doesn't have the ability to identify small businesses that meet or do not meet the eligibility requirements of the Research Tax Credit Payroll Tax Offset. The Treasury Inspector General for Tax Administration says the nation's tax agency needs to implement new processes to deter abuse of the credit.

The credit was enacted in 1981 to stimulate research and development in the United States by helping businesses offset some of the costs associated with increasing their qualified research activities. The Protecting Americans from Tax Hikes Act of 2015 made the Research Credit permanent after December 31, 2014, and now allows qualified small businesses to apply a portion of the Research Credit against their employer portion of the Social Security tax. Qualified small businesses could begin claiming this credit after December 31, 2015. In Tax Year 2017, over 2,200 Research Credit claims were made totaling over \$53.2 million.

TIGTA found that the IRS does not have processes to identify small businesses that do not meet the eligibility requirements and dollar limitations for claiming the Research Credit. A review of 1,467 businesses claiming over \$53.2 million in Research Credits on Tax Year 2017 employment tax returns identified 143 businesses that claimed or received about \$11.8 million in potentially erroneous Research Credits. For example, TIGTA identified 81 businesses with potentially erroneous Research Credit claims totaling almost \$2.8 million because they did not meet one or more of the eligibility requirements to claim the Research Credit. TIGTA also identified 55 businesses with potentially erroneous Research Credit claims totaling \$586,190 on a return prior to when the credit became available. The IRS agreed with 50 of the identified cases.

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