

## U.S. Increasing Research Activities Tax Credit Introduction- Form6765

The increasing research activities tax credit is a general business tax credit. The purpose is to encourage American enterprises to increase research expenditure and maintain the vitality of innovation. Research expenditures must comply with the relevant regulations of the IRS. Enterprises must also meet certain conditions.

Qualified research expenditures need to meet the following two conditions:

1. Research expenditures need to meet the expenses stipulated in Section 174. Essentially, research is to discover technological information. Then, use this type of technology to promote or develop the taxpayer's business component.
2. Research must be an element of the experimental process. The experimental process should be related to improving quality, reliability, performance, and new functions. Research activities should also be applied separately to each business component of the taxpayer.

The increasing research activities tax credit cannot be used for the following eight activities:

1. Surveys or studies.
2. Research on social sciences, arts, and humanities.
3. Duplicate those existing processes or products.
4. Research conducted outside Puerto Rico, the United States, or U.S. territories.
5. Products or processes research to meet specific customer needs.
6. Research carried out after the starting of commercial production.
7. Research sponsored by others, such as government agencies.
8. Research related to certain internal computer software.

When used to deduct the alternative minimum tax (AMT), eligible small businesses include partnerships, sole proprietorships, and corporations whose stocks aren't publicly traded. And these small businesses also need to meet the following conditions:

### SHENZHEN 深圳

Rooms 1203-06, 12/F.  
Di Wang Commercial Centre  
5002 Shennan Road East  
Luohu District, Shenzhen, China  
中國深圳市羅湖區深南東路5002號  
地王商業中心12樓1203-06室  
T: +86 755 8268 4480

### SHANGHAI 上海

Room 603, 6/F., Tower B  
Guangqi Culture Plaza  
2899A Xietu Road, Xuhui District  
Shanghai, China  
中國上海市徐匯區斜土路2899甲號  
光啓文化廣場B座6樓603室  
T: +86 21 6439 4114

### BEIJING 北京

Room 303, 3/F.  
Interchina Commercial Building  
33 Dengshikou Street  
Dongcheng District, Beijing, China  
中國北京市東城區燈市口大街33號  
國中商業大廈3樓303室  
T: +86 10 6210 1890

### SINGAPORE 新加坡

138 Cecil Street, #13-02 Cecil Court  
Singapore 069538  
新加坡絲絲街138號  
絲絲閣13樓1302室  
T: +65 6438 0116

### TAIPEI 台北

Room 303, 3/F., 142 Section 4  
Chung Hsiao East Road  
Daan District, Taipei  
Taiwan 10688  
台灣台北市大安區忠孝東路四段  
142號3樓之3  
郵政編碼: 10688  
T: +886 2 2711 1324

### NEW YORK 紐約

202 Canal Street, Suite 303, 3/F.  
New York, NY 10013, USA  
美國紐約州紐約市  
堅尼路202號3樓303室  
郵政編碼: 10013  
T: +1 646 850 5888

### LONDON 倫敦

Room 319, 3/F., One Elmfield Park  
Bromley, Greater London  
BR1 1LU, UK  
英國倫敦布羅姆利  
雅茅菲爾德公園一號3樓319室  
郵政編碼: BR1 1LU  
T: +44 20 8176 3860

1. For eligible small businesses, the average annual gross receipts cannot exceed \$50 million for the three-tax year period preceding the tax year for which the tax credit is applied. In addition, sales returns and price reductions will reduce the gross receipts of the tax year. If the company has existed for less than three full years, the period of existence of the small company is used as the base to calculate the annual average gross receipt.
2. If the total number of months in the tax year is less than 12, the gross receipts of the small businesses are multiplied by the gross short-term receipts by 12, and then the results are divided by the total number of months in the tax year.

When choosing to be used as a payroll tax credit, eligible small businesses include partnerships, corporations, and S-corporations. These small businesses also need to meet the following conditions:

1. A small business cannot be a tax-exempt organization as specified in Section 501.
2. The gross receipts of the small businesses during the tax year are less than 5 million.
3. Before the five tax years ending in the tax year, small businesses cannot have any gross receipt.

Eligible small businesses can choose the payroll tax credit election. An increasing research activities tax credit of up to \$250,000 can be used to offset the portion of employers' social security liability. The credit amount is the smallest of the following three: the elected amount not exceeding \$250,000, the research tax credit of the current year, and the general business tax credit carryforward from the previous tax year. The payroll tax credit election must be made on or before the original due date (including extensions) of the income tax return. If a small business has made the payroll tax credit election five years before the tax year or earlier, the small business cannot make this election during the tax year. Small businesses must obtain approval from the IRS before they can withdraw their payroll tax credit elections.

Form 6765 is composed of four parts: A, B, C, and D. When calculating increasing research activities tax credit, small businesses can use the regular research tax credit or alternative simplified credit. To choose the regular research tax credit, just fill in Part A, and to choose the alternative simplified credit, just fill in Part B. Parts A and B mainly include payment for energy consortia and basic research payments to qualified organizations. Once the alternative simplified credit is elected, this calculation method must be applied to the tax year and all subsequent years. Small businesses can use two methods to calculate increasing research activities tax credit, and then choose the method that produces the largest credit. After calculating increasing research activities tax credit for small businesses in the current year through Part A or B, according to the business structure of the small businesses, you can fill in Part C to determine additional forms and timetables that need to be reported. For most small businesses, Part C can be ignored. Part D is only required to be filled in if small businesses make a payroll tax credit election. If the small business is not an S-corporation or partnership, you must fill out Form 3800 before completing Part D.

**Reference:**

<https://www.irs.gov/instructions/i6765>

<https://www.irs.gov/pub/irs-pdf/f6765.pdf>

*If you wish to obtain more information or assistance, please visit our official website at [www.kaizencpa.com](http://www.kaizencpa.com) or contact us through the following methods:*

*T: +852 2341 1444*

*M: +852 5616 4140, +86 152 1943 4614*

*WhatsApp/Line/WeChat: +852 5616 4140*

*Skype: kaizencpa*

*E: [info@kaizencpa.com](mailto:info@kaizencpa.com)*