



THE INTERPLAY OF R&D CREDITS AND 174 CAPITALIZATION

LEGISLATIVE UPDATES

JANUARY 29, 2025



Chattanooga
Tax Practitioners





The Real Estate Roundtable



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Sacramento
Phoenix



SOUTHEAST

Atlanta
Boca Raton



SOUTH

Dallas – Fort Worth



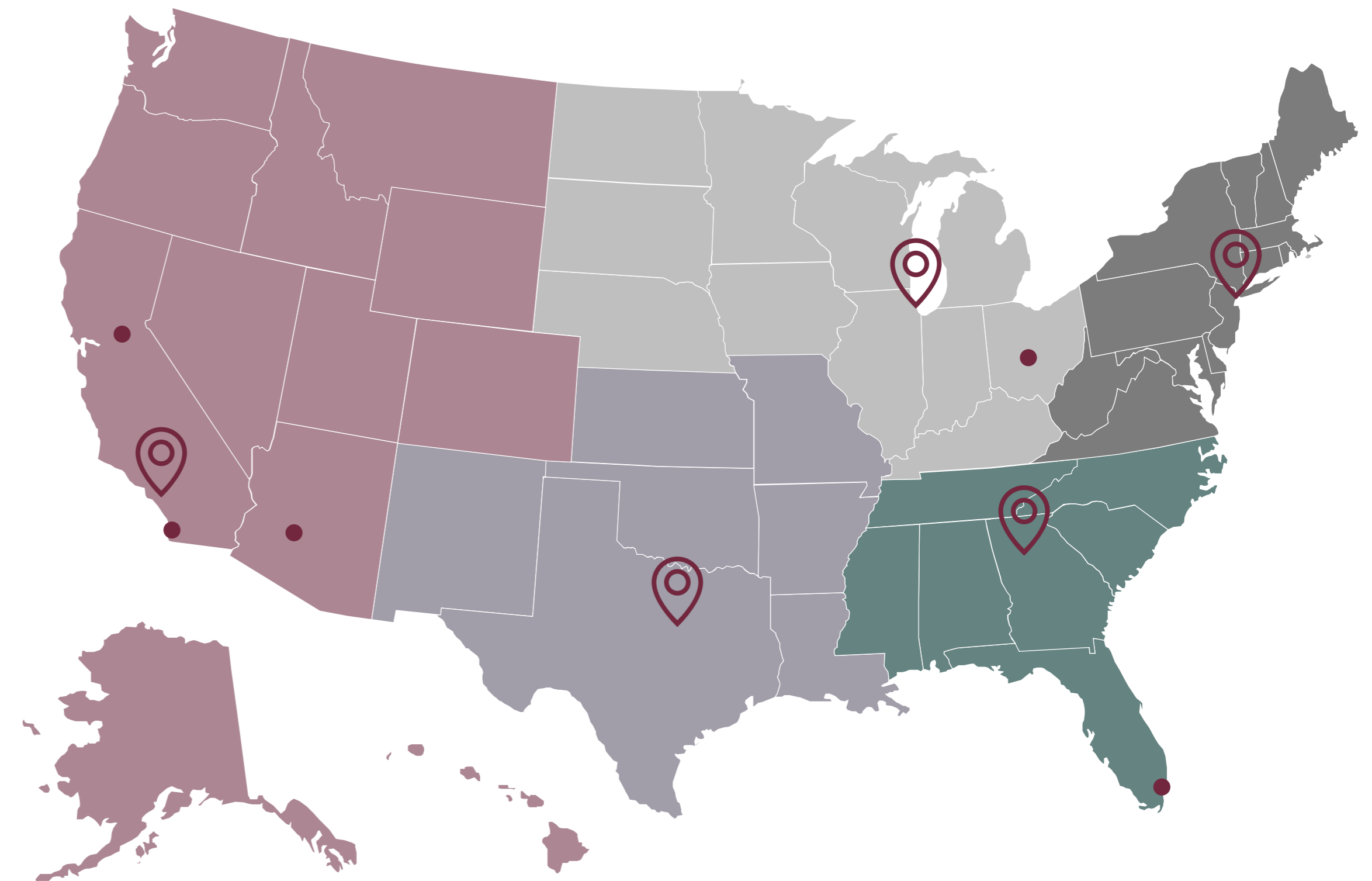
MIDWEST

Chicago
Columbus



NORTHEAST

New York City



K B K G

R&D Credit Overview & Section 174 Tax Updates

AGENDA

Benefits of the R&D Credit

Identifying R&D Credit Activities and Expenses

Recent Guidance

- Chief Counsel Memorandum (CCM)
- Proposed Form 6765 Changes

Legislative Updates

- Section 174
- Section 280C(c)





Benefits of the R&D Tax Credit

- Federal benefit typically ranges from 6% to 10% of the qualifying research expenditures
- Dollar-for-Dollar reduction in tax liability
- Increases the Return on Investment
- Lowers the effective tax rate
- May be used against payroll tax for qualified small businesses
- Retroactive Claims (all open years or more if net operating losses)
- General Rule: 1 Year Carryback; 20 Year Carryforward
- S Corps & Partnerships – R&D tax credit flows through to the owners
- Many states offer an R&D tax credit



The Real Estate Roundtable



POLLING QUESTION #1

Have you ever been involved with an R&D Tax Credit study?

THE “FOUR-PART TEST”

01

1. Technological in Nature (§41)

The activity performed must fundamentally rely on principles of:

- Physical Science;
- Biological Science;
- Engineering; or
- Computer Science

02

2. Permitted Purpose (§41)

The activity must relate to a new/improved business component's:

- Function;
- Performance;
- Reliability; or
- Quality

03

3. Elimination of Uncertainty (§174)

The activity must be intended to discover information to eliminate uncertainty concerning the capability, method or design for developing or improving a product or process.

04

4. Process of Experimentation (§41)

The taxpayer must engage in an evaluative process designed to identify and evaluate more than one alternative to achieve a result.

For example: modeling, simulation or a systematic trial and error methodology.

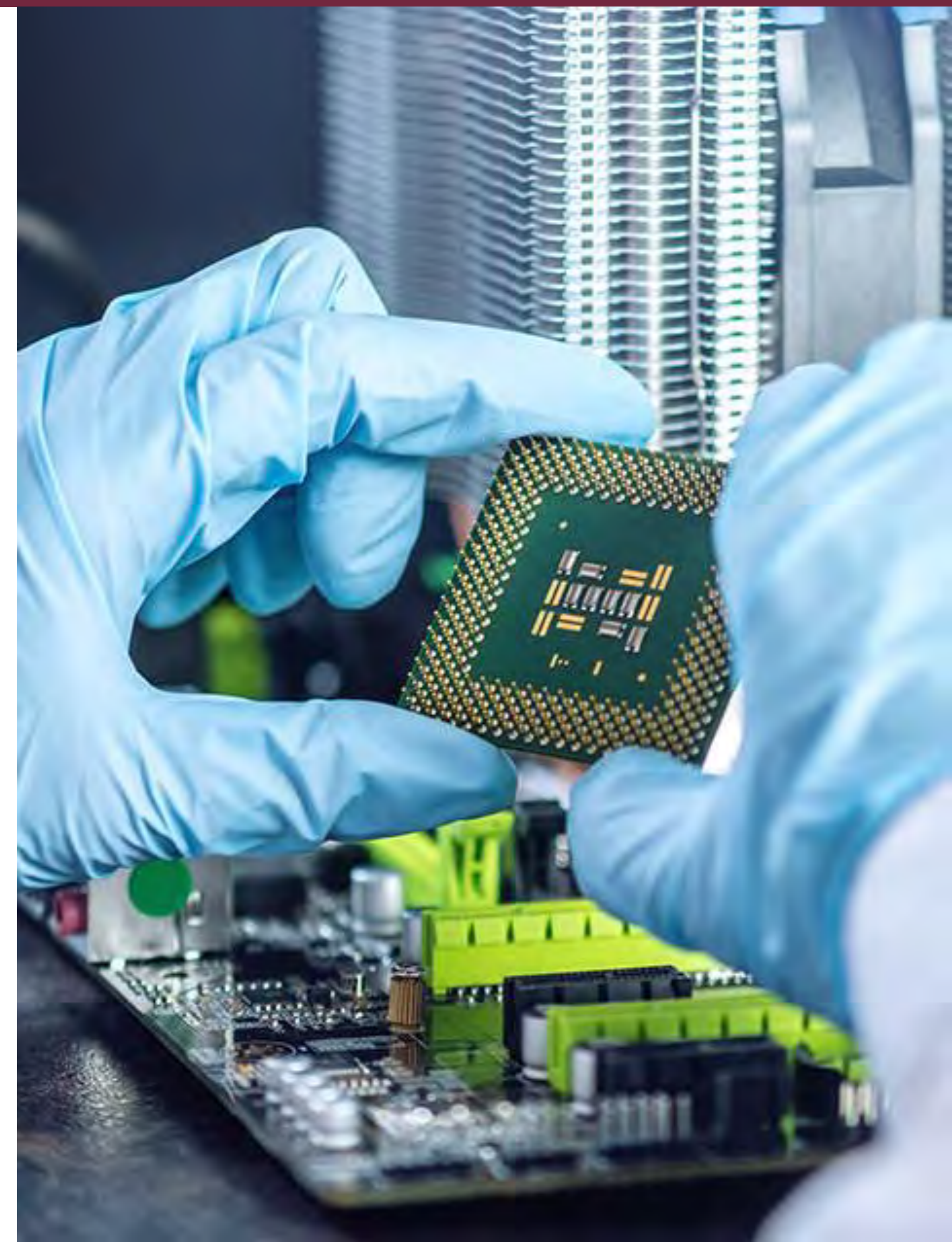
OVERVIEW – WHO QUALIFIES?

Any Employee who:

- Performs qualified activities
- Direct Supervision of other employees who perform qualified activities
- Direct Support of other employees who perform qualified activities

Outside Contract Service Providers:

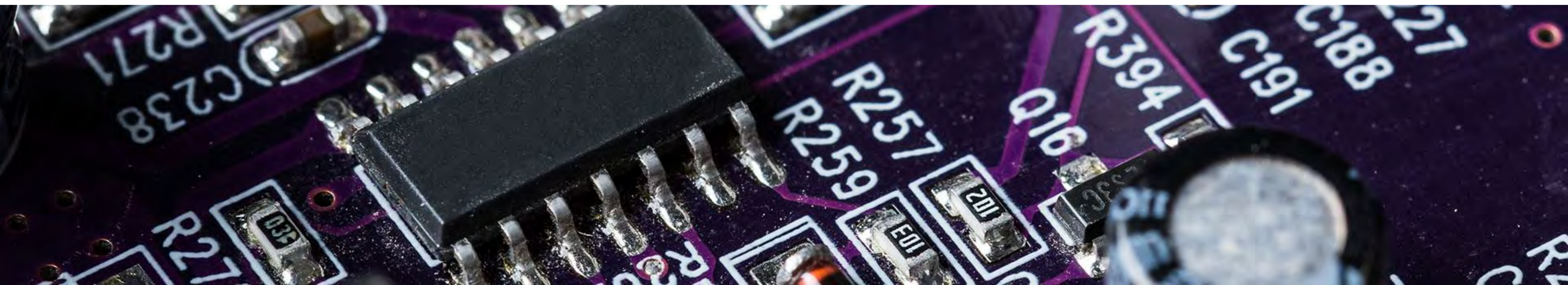
- 65% of amounts paid or incurred for qualified research (paid to any person other than an employee of the taxpayer)



OVERVIEW – QUALIFYING INDUSTRIES

- Aerospace
- Architectural
- Automotive
- Banking
- Chemical
- Defense
- Food & Beverage
- Engineering
- Manufacturing
- Medical Device
- Life Sciences
- Pharmaceuticals
- Retail
- Semiconductor
- Telecommunications
- Technology

Applies Across ALL Industries!!!





Recent Guidance

RECENT GUIDANCE: IRS RESEARCH CREDIT MEMO (CCM 20214101F)

On October 15th 2021, the IRS released CCM 20214101F detailing new requirements for taxpayers claiming research credits on amended Returns

- Applicable to amended or late filed returns
- Effort to “effectively allocate its limited resources to determining which procedurally compliant claims to examine.”
- For claims that fail to provide the information sought by the CCM, taxpayers will receive a letter advising them that they must “perfect” the claim by providing the information within 45 days.
 - Applicable through January 10, 2026 (per IRS Nov. 25, 2024 update). After this date, research credit refund claims deemed to be procedurally insufficient will be rejected with no opportunity to “perfect” the claim.

RECENT GUIDANCE: IRS RESEARCH CREDIT MEMO (CCM 20214101F)

Among other items, a Taxpayer must submit the following (at minimum), for a refund claim to be considered ‘valid’:

- Identify ALL the business components to which the I.R.C. § 41 research credit claim relates for that year.
- For each business component:
 - identify ALL research activities performed;
 - identify ALL individuals who performed each research activity; and
 - identify ALL the information **each individual** sought to discover.
- Total QRE claimed (Wages, Supplies, Contract Research)

Item #	Information Needed	Description
1	Identify all the business components that form the factual basis of the IRC § 41 research credit claim for the claim year.	Business components as defined in IRC § 41(d)(2)(B) must be identified.
2	All research activities performed by business component.	This must include a description of what the taxpayer did, and how they did it, by business component. It does not need to describe the four-part test under IRC § 41(d)(1) in detail. Language that simply restates the requirements under the Code or Treasury Regulations is insufficient.
3	All individuals who performed each research activity by business component.	This can be a list, table, or narrative but must include the first and last name or title/position of the person or persons engaged in the research by business component.
4	All the information each individual sought to discover by business component.	This can be a list, table, or narrative providing the information each individual sought to discover.
5	The total qualified 1) employee wage expenses, 2) supply expenses, and 3) contract research expenses.	The claim should provide the total amount of each of these expense types. If the Form 6765 or its equivalent is properly completed, that will satisfy this item.

RECENT GUIDANCE: IRS RESEARCH CREDIT MEMO (CCM)

- Effective June 18, 2024, IRS no longer requires taxpayers to provide the following two items with their research credit refund claim:
 - Item #3 – The names of the individuals who performed each research activity and
 - Item #4 – The information each individual sought to discover.
- This is a best practice example submission from the IRS website of Items #1 and #2.
- **Note:** Providing a completed copy of the Form 6765 will satisfy Item #5.

1. Identify all business components to which the IRC Section 41 research credit claim for refund relates for the claim year.

Business component number	Business component name	IRC Section 41(D)(2)(B) category
1	Alpha Software Suite	Computer Software
2	Beta Manufacturing Line	Process

2. Identify all research activities performed by business component.

1. Alpha Software Suite

Taxpayer sought to improve the performance and quality of its inventory and process tracking systems. The research performed included:

- Integrate Radio Frequency Identification (RFID) part tracking with factory process tracking software and accounting software, all currently residing on different software platforms.
- Develop real-time reporting from above software systems so end users can track product through the facility. This requires database development from currently disparate systems.

2. Beta Manufacturing Line

Newly designed line to improve throughput and quality of Beta widgets.

The research performed included:

- Design new manufacturing equipment capable of higher throughput by designing and building higher speed injector process that is also capable of meeting tighter tolerances due to the mold wall design of withstanding temperatures without expanding.
- Integrate all of the new manufacturing equipment into a new production line with redesigned conveyors and automated material handling capable of increasing throughput. The challenges came in reducing jams in the line and damage of widgets.
- Develop a software handshake between new components; the new components were not originally designed to share data with one another. A piece of equipment known as a “communication doodad” was added to the system, and a section of code was developed allowing the doodad to translate and pass data from one system to the next.



POLLING QUESTION #2

Is it possible to go back and claim the R&D Tax Credit for a prior year?



Proposed Changes to Form 6765

RECENT GUIDANCE: PROPOSED CHANGES TO FORM 6765

- On September 15, 2023, the IRS released a preview of proposed changes to Form 6765.
- Primary objective is to promote compliance and improve transparency.
- Based on the feedback received, the IRS made several revisions to “reduce taxpayer burden” which were released on June 21, 2024.
- Final Instructions are expected to be released in January 2025.



RECENT GUIDANCE: PROPOSED CHANGES TO FORM 6765

- Form expanded from 2 pages to 4 pages
- Added 3 sections to the Form (E, F, and G)
- Section G will be optional for tax year 2024, effective for tax year 2025
- Page 1 Changes
 - Section 280C election has been moved to the top of the page
 - New check box for members of a controlled group or business under common control

Form 6765 (Rev. December 2024) Department of the Treasury Internal Revenue Service	Credit for Increasing Research Activities Attach to your tax return. Go to www.irs.gov/Form6765 for instructions and the latest information.	OMB No. 1545-0619 Attachment Sequence No. 676
Name(s) shown on return		Identifying number
<p>A Are you electing the reduced credit under section 280C? See instructions <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>B Are you a member of a controlled group or business under common control? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>If "Yes," complete and attach the required statement. See instructions for required attachment.</p>		
Section A—Regular Credit. Skip this section and go to Section B if you are electing or previously elected (and are not revoking) the alternative simplified credit.		
1	Certain amounts paid or incurred to energy consortia (see instructions)	1
2	Basic research payments to qualified organizations (see instructions)	2
3	Qualified organization base period amount	3
4	Subtract line 3 from line 2. If zero or less, enter -0-	4
Note: Complete Section F before going to line 5.		
5	Total qualified research expenses (QRE). Enter amount from line 48	5
6	Enter fixed-base percentage, but not more than 16% (0.16). See instructions	6
7	Enter average annual gross receipts. See instructions	7
8	Multiply line 7 by the percentage on line 6	8
9	Subtract line 8 from line 5. If zero or less, enter -0-	9
10	Multiply line 5 by 50% (0.50)	10
11	Enter the smaller of line 9 or line 10	11
12	Add lines 1, 4, and 11	12
13	If you elect to reduce the credit under section 280C, then multiply line 12 by 15.8% (0.158). If not, multiply line 12 by 20% (0.20) and see instructions for the statement that must be attached	13
Section B—Alternative Simplified Credit. Skip this section if you are completing Section A.		
14	Certain amounts paid or incurred to energy consortia (see the line 1 instructions)	14
15	Basic research payments to qualified organizations (see the line 2 instructions)	15
16	Qualified organization base period amount (see the line 3 instructions)	16
17	Subtract line 16 from line 15. If zero or less, enter -0-	17
18	Add lines 14 and 17	18
19	Multiply line 18 by 20% (0.20)	19
Note: Complete Section F before going to line 20.		
20	Total qualified research expenses (QRE). Enter amount from line 48	20
21	Enter your total QRE for the prior 3 tax years. If you had no QRE in any 1 of those years, skip lines 22 and 23	21
22	Divide line 21 by 6.0	22
23	Subtract line 22 from line 20. If zero or less, enter -0-	23
24	Multiply line 23 by 14% (0.14). If you skipped lines 22 and 23, multiply line 20 by 6% (0.06)	24
25	Add lines 19 and 24	25
26	If you elect to reduce the credit under section 280C, then multiply line 25 by 79% (0.79). If not, enter the amount from line 25 and see the line 13 instructions for the statement that must be attached	26

RECENT GUIDANCE: PROPOSED CHANGES TO FORM 6765

- Page 2 Changes
- Section E – Other Information (NEW)
 - High level risk review analysis
 - Questions about the taxpayer’s claim include:
 - Number of business components
 - Officer wages included in Wage QRE
 - Acquisitions or dispositions
 - New categories of expenses in QRE
 - QREs determined following ASC 730 Directive
- Section F – QRE Summary (NEW)
 - Check box if Section G is required
 - Reconciliation of Section G, if applicable

Form 6765 (Rev. 12-2024) Page 2

Section C – Current Year Credit

27	Enter the portion of the credit from Form 8932, line 2, that is attributable to wages that were also used to figure the credit on line 13 or line 26 (whichever applies)	27	
28	Subtract line 27 from line 13 or line 26 (whichever applies). If zero or less, enter -0-	28	
29	Credit for increasing research activities from partnerships, S corporations, estates, and trusts	29	
30	Add lines 28 and 29	30	
	<ul style="list-style-type: none"> • Estates and trusts, go to line 31. • Partnerships and S corporations not electing the payroll tax credit, stop here and report this amount on Schedule K. • Partnerships and S corporations electing the payroll tax credit, complete Section D and report on Schedule K the amount on this line reduced by the amount on line 36. • Eligible small businesses, stop here and report the credit on Form 3800, Part III, line 4l. See instructions for the definition of eligible small business. • Filers other than eligible small businesses, stop here and report the credit on Form 3800, Part III, line 1c. 		
31	Amount allocated to beneficiaries of the estate or trust (see instructions)	31	
32	Estates and trusts, subtract line 31 from line 30. For eligible small businesses, report the credit on Form 3800, Part III, line 4l. See instructions. For filers other than eligible small businesses, report the credit on Form 3800, Part III, line 1c	32	

Section D – Qualified Small Business Payroll Tax Election and Payroll Tax Credit. Skip this section if the payroll tax election does not apply. See instructions.

33a	Check this box if you are a qualified small business electing the payroll tax credit. See instructions <input type="checkbox"/>		
b	Check the box if payroll tax is reported on a different EIN <input type="checkbox"/>		
34	Enter the portion of line 28 elected as a payroll tax credit (do not enter more than \$500,000). See instructions	34	
35	General business credit carryforward from the current year. See instructions. Partnerships and S corporations, skip this line and go to line 36	35	
36	Partnerships and S corporations, enter the smaller of line 28 or line 34. All others, enter the smallest of line 28, line 34, or line 35. Enter here and on the applicable line of Form 8974, Part 1, column (e). Members of controlled groups or businesses under common control, see instructions for the statement that must be attached	36	

Section E – Other Information. See instructions.

37	Enter the number of business components generating the QRE on line 5 or line 20	37	
38	Enter the amount of officers’ wages included on line 42	38	
39	Did you acquire or dispose of any major portion of a trade or business in the tax year? <input type="checkbox"/> Yes <input type="checkbox"/> No		
40	Did you include any new categories of expenditures as current year QRE? <input type="checkbox"/> Yes <input type="checkbox"/> No		
41	Did you determine any of the QRE on line 5 or line 20 following the ASC 730 Directive? <input type="checkbox"/> Yes <input type="checkbox"/> No		
	If “Yes,” enter the amount from Appendix C Line 19 (you may attach your Appendices A, B, C, and D here) This ASC 730 Directive only applies to taxpayers with assets equal to or greater than \$10,000,000 who follow U.S. GAAP to prepare their Certified Audited Financial Statements showing the amount of currently expensed Financial Statement R&D. See instructions.	41	

Section F – Qualified Research Expenses Summary. See instructions.

A	Are you required to complete Section G? See instructions to determine if you are required to complete Section G, and how to complete Section F if you are not required to complete Section G <input type="checkbox"/> Yes <input type="checkbox"/> No		
42	Total wages for qualified services for all business components (do not include any wages used in figuring the work opportunity credit)	42	
43	Total costs of supplies for all business components	43	
44	Total rental or lease cost of computers for all business components	44	
45	Total applicable amount of contract research for all business components (do not include basic research payments)	45	
46	Enter the applicable amount of all basic research payments. See instructions	46	
47	Add line 45 and line 46	47	
48	Add lines 42, 43, 44, and 47, then enter line 48 on either line 5 or line 20, whichever is appropriate	48	

Form 6765 (Rev. 12-2024)

RECENT GUIDANCE: PROPOSED CHANGES TO FORM 6765

- Page 3 Changes
- Section G – Business Component Information (NEW)
 - For each business component, taxpayers will need to provide the following:
 - Business component name
 - Business component type
 - Product, process, technique, software, formula, invention
 - If software, what type is it
 - Internal use software (IUS), dual function, Non-IUS, exempt, etc. (10 options)
 - **Information sought to be discovered**

Section G—Business Component Information. Complete lines 49(a) through 49(f) for each business component you are required to report. See instructions. Attach additional sheets if necessary to capture all business components.

BC	49(a)	49(b)	49(c)	49(d)
	EIN of the controlled group member conducting the research activities on this business component	Controlled group member's principal business activity code	Business component's name or unique alphanumeric identifier (see instructions)	Business component type (select one from available options)
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
BC	49(e)		49(f)	
	Software (if applicable, select from the available options)		Describe the information sought to be discovered. Use the space provided.	
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				

RECENT GUIDANCE: PROPOSED CHANGES TO FORM 6765

- Page 4 Changes
- Section G – Business Component Information (NEW – Continued)
 - For each business component, taxpayers will need to provide the following:
 - QRE by cost category
 - Wage QRE
 - Direct research
 - Direct supervision
 - Direct support
 - Supply QRE
 - Computer leasing QRE
 - Contract research QRE

Form 6765 (Rev. 12-2024)

Page 4

Section G – Business Component Information (continued). Complete lines 50 through 56 for each business component. If you have more than fifteen business components, see instructions.

BC	50 Direct research wages for qualified services	51 Direct supervision wages for qualified services	52 Direct support wages for qualified services	53 Total qualified wages (add line 50, line 51, and line 52)
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
Total from attachments				
Total				

BC	54 Cost of supplies	55 Rental or lease cost of computers	56 Applicable amount of contract research expenses (see instructions for reporting basic research payments)
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
Total from attachments			
Total			

RECENT GUIDANCE: PROPOSED CHANGES TO FORM 6765

- Section G will be optional in 2025 for taxpayers who meet either of the following set of requirements:
 1. The taxpayer is a Qualified Small Business (QSBs, or payroll tax credit eligible taxpayers)
 2. The taxpayer has:
 - a. \$1.5M or less in QREs in the current tax year (determined at the controlled group level),
 - b. \$50M or less in gross receipts in the current tax year (determined at the controlled group level), and
 - c. Is claiming the R&D credit on an original, timely filed return
- The IRS also limited the number of business components that must be report in Section G to:
 - 80% of total QREs in descending order by business component, but
 - No more than 50 business components
 - Taxpayers using ASC 730 Directive can report those QREs on a single line item



SECTION 174

SECTION 174 RULES

- For tax years beginning after 12/31/2021, Specified R&E expenditures are no longer allowed to be currently deducted.
 - Domestic R&E is to be capitalized and amortized over 5 years
 - Foreign R&E is to be capitalized and amortized over 15 years
 - Amortization begins in the midpoint of the taxable year in which expenses are paid or incurred
- Software Development
 - While previously deductible under Rev. Proc 2000-50, the new 174 rules specify that software development must be capitalized and amortized
- Treatment upon disposition, retirement, or abandonment.
 - Must continue to amortize



SECTION 174 RULES

- Examples of expense categories with differing treatment between Sec. 174 & Sec. 41:

Type	Sec. 174 Required Amortization Treatment	Sec. 41 R&D Tax Credit Treatment
Direct research expenses: wages & supplies	Amortization Required	R&D tax credit eligible
Direct research expenses: outside service providers	Amortization Required	R&D tax credit eligible at 65% of costs incurred, if rights and risk to research are with taxpayer
Supervision of research	Amortization Required	R&D tax credit eligible for first-line supervisors
Indirect research expenses such as rent, utilities, & overhead	Amortization Required	Not eligible for R&D tax credit
Foreign research	Amortization Required	Not eligible for R&D tax credit
Patent-related expenses	Amortization Required	Not eligible for R&D tax credit
Research funded by a third party	Amortization Required	Not eligible for R&D tax credit

SECTION 174 RECENT GUIDANCE – NOTICE 2023-63

- Defines specified research expenditures (SRE) subject to Section 174 amortization:
 - Labor costs
 - Materials and supplies
 - Cost recovery allowances
 - Patent costs
 - Certain operation
 - Management costs
 - Travel costs
- Outlines costs that are explicitly excluded from being treated as SRE:
 - General and administrative service department costs
 - Interest on debt financing for SRE activities
 - Certain specific activities
 - Amortization amounts for specific expenditures

SECTION 174 RECENT GUIDANCE – NOTICE 2023-63

- Examples of Section 174 Specified Research and Experimentation (SRE) expenses:
 - Research Provider: the party performing research services of developing an SRE product
 - Research Recipient: the party contracting research services or acquiring an SRE product
 - Financial Risk: risk of financial loss for the research provider
 - SRE Product: property subject to legal protection, such as patents, computer software, etc.
- Contracted research constitutes SRE when:
 - Research provider bears financial risk under the contract **OR**
 - Research provider retains the rights to use or exploit the resulting SRE product in its business

SECTION 174

RECENT GUIDANCE – NOTICE 2023-63

Examples of Section 174 Specified Research and Experimentation (SRE) Expenses:

- Labor Costs: Compensation = basic pay, stock-based compensation, overtime, benefits
 - Full-time, part-time, contract employees, independent contractors working or directly supervising or directly supporting SRE activities
- Materials and Supplies Costs: Costs for materials, supplies, tools, and equipment used in performing or directly supporting SRE activities; NOT depreciable under § 168
- Cost Recovery Allowances: Depreciation, amortization, or depleting allowances related to property used in SRE activities or their direct support – Includes property placed in service prior to December 31, 2021
- Patent Costs: Includes expenses incurred in obtaining a patent, such as attorney fees for patent applications
- Certain Operation and Management Costs: Overhead costs for facilities, equipment, and assets used in SRE activities – covers rent, utilities, insurance, taxes, repairs, and security
- Travel Costs: Travel expenses incurred for the performance of SRE activities or their direct support

SECTION 174

RECENT GUIDANCE – NOTICE 2023-63

Costs Not Treated as SRE Expenditures:

- Costs incurred by general and administrative service departments that indirectly support or benefit SRE activities.
- Interest on debt used to finance SRE activities.
- Costs for activities described in section 5.05 of notice 2023-63 related to Computer Software.
- Costs related to inputting content into a website.
- Costs for website hosting with specified periodic fees to Internet service providers.
- Costs for registering internet domain names or trademarks.
- Costs listed in § 1.174-2(a)(6)(i)-(vii).
- Amounts representing the amortization of SRE expenditures.
- Amounts representing the amortization of research or experimental expenditures incurred in taxable years beginning before January 1, 2022.

SECTION 174

RECENT GUIDANCE – NOTICE 2023-63

Allocation Method

To determine total SRE expenditures for a taxable year, taxpayers must allocate costs to SRE activities based on a **cause-and-effect relationship** or another reasonable relationship that links the costs to the benefits provided to SRE activities.

The allocation method can vary for different types of costs but must be applied consistently. For example, labor costs can be allocated based on the **ratio of time spent** on SRE activities to total time spent, while facility cost recovery allowances can be allocated based on **square footage ratios**. This consistent allocation method ensures compliance with tax regulations, even though it may not be appropriate for other sections of the tax code.



POLLING QUESTION #3

Have you advised a client against taking the R&D Tax Credit due to the implications of 174?

TAX IMPACT OF SECTION 174 CHANGES

Example 1: Taxpayer conducts all R&D in the US and R&E expenses remain consistent year over year (assume QREs are the only R&E expenses for simplicity)

	2021	2022	2023	2024	2025	2026	2027	Total	
Section 174 Expenses	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 6,000,000	
Amount Recovered	\$ (1,000,000)	\$ (100,000)	\$ (300,000)	\$ (500,000)	\$ (700,000)	\$ (900,000)	\$ (1,000,000)	\$ (3,500,000)	
Remains Capitalized	\$ -	\$ 900,000	\$ 700,000	\$ 500,000	\$ 300,000	\$ 100,000	\$ -	\$ 2,500,000	
Tax Rate	21%	21%	21%	21%	21%	21%	21%		
Tax Impact w/o R&D Credit	-	189,000	147,000	105,000	63,000	21,000	-	\$ 525,000	<i>Tax without R&D credit</i>
R&D Credit = 10% of QRE	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 600,000	<i>R&D credit savings</i>
Change in Tax w/ R&D Credit	\$ (100,000)	\$ 89,000	\$ 47,000	\$ 5,000	\$ (37,000)	\$ (79,000)	\$ (100,000)	\$ (75,000)	<i>Tax with R&D credit</i>

CHANGE IN ACCOUNTING METHOD

- Revenue Procedure 2023-11
 - Automatic accounting method change 265
- No audit protection for expenditures paid or incurred in taxable years prior to the first taxable year in which Section 174 becomes effective or for a year of change that is the taxable year immediately subsequent to the first taxable year in which Section 174 becomes effective
- First taxable year beginning after December 31, 2021
 - Cut-off basis
 - Statement in lieu of a Form 3115 Application for Change in Accounting Method
 - No longer applicable
- Year of change later than the first taxable year beginning after December 31, 2021
 - No audit protection, Modified Section 481(a) adjustment
 - Form 3115 Application for Change in Accounting Method
 - See Revenue Procedures 2024-23 and 2024-34 for reference

CHANGE IN ACCOUNTING METHOD

- Revenue Procedure 2024-09
 - Automatic accounting method change 270
 - Applicable to taxpayers who revise capitalized Section 174 expenses based on interim guidance from Notice 2023-63 and subsequent Notice 2024-12.
- No audit protection for expenditures paid or incurred in the first taxable year in which Section 174 changes become effective if the taxpayer did not make, or attempt to make, the applicable accounting method change.
- Year of change later than the first taxable year beginning after December 31, 2021.
 - Modified Section 481(a) adjustment
 - Form 3115 Application for Change in Accounting Method
 - See Revenue Procedures 2024-23 and 2024-34 for reference



SECTION 280C(c) CHANGES

- When electing NO for 280C(c), taxpayers are no longer required to reduce deductions by the amount of the gross credit
- If the gross credit is greater than the amount allowable as a deduction for research expenses in the current tax year, reduce the basis in the capital account by the excess
- The election must be made on a **timely filed** return, including extensions
 - Protective elections are permissible



POLLING QUESTION #4

Do you feel comfortable discussing the Research and Development Tax Credits with your clients?



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QUESTIONS?

INDUSTRY MATRIX

Industry	R&D Tax Credits	Repair /Asset Retirement	179D Tax Deductions	45L Tax Credits	Employment Tax Credits	Cost Segregation	199 DPAD Deduction
Affordable Housing		X	X	X	X	X	
Agriculture, Forestry & Fishing	X				X	X	
Architecture & Engineering	X		X		X	X	X
Auto Dealerships		X	X		X	X	
Communications & Utilities	X	X	X		X	X	
Construction	X				X	X	X
Film & Music	X	X	X		X	X	X
Financial Services		X			X	X	
Government Contractors	X	X	X		X	X	
Healthcare		X	X		X	X	
Hotels		X	X		X	X	
Logistics & Distribution		X	X		X	X	X
Manufacturing	X	X	X		X	X	X
Mining	X				X	X	
Multifamily / Assisted Living		X	X	X	X	X	
Oil & Gas	X	X			X	X	
Pharmaceutical	X	X	X		X	X	X
Professional Services		X			X	X	
Real Estate		X			X	X	
Restaurants		X			X	X	
Retail		X	X		X	X	
Technology/Software	X	X	X		X	X	X
Transportation					X	X	
Wholesale Trade		X	X		X	X	

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