

**Subject:** Payroll Offset for the R&D Credit

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## VALUE FOR STARTUPS AND NEW BUSINESS: R&D PAYROLL TAX CREDIT

New businesses have enough uncertainty, yet this has been compounded because of the current coronavirus (COVID-19) pandemic. To reduce any expense or tax liability could be a significant benefit for keeping new businesses on track during this time.

One of the more overlooked areas is the R&D Credit. Most new businesses, although they qualify for the R&D credit, don't have taxable income, so there are no immediate benefits and they don't file for the credit. **But new businesses have possibly missed that they can use the R&D Credit to offset payroll tax up to \$250,000, that can be used quickly to alleviate their tax burden.**

Some new businesses might not even realize this opportunity exists because they do not see their activities as research and development. But if a new business invests in improving or creating a product or process, they have a high chance of qualifying for the R&D Credit.

The R&D payroll credit offers immediate value for the current year. For example, if a qualified business makes the R&D payroll election in the second quarter on their Federal Return. They can start using the payroll credit in third quarter of the current year.

To offset payroll tax using the R&D Credit, new businesses must meet these qualifications:

- Qualifying activities and expenditures for R&D tax credit
- An average of \$5 million or less in gross receipts within the last five years.
- Only have gross receipts up to five years.

New businesses should not overlook this opportunity to reduce their tax liability that can have an immediate impact. To learn if you're eligible for the R&D payroll tax credit or have more questions related to R&D tax credit, please contact CFO Services.