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IRS release: Small startups can apply research credit against payroll tax liability

The IRS today issued a release announcing that “eligible small business startups” can elect to apply part or all of their research credit against their payroll tax liability—instead of having to apply the research credit against their income tax liability.

As noted in the IRS release—[IR-2017-93](#) (May 3, 2017)—this election will be available for any eligible small business in 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 IRS stated that the ability to elect the new payroll tax credit may be beneficial to any eligible startup that has little or no income tax liability.

To qualify for this option for the current tax year, a small business must have gross receipts of less than \$5 million and must not have had gross receipts prior to 2012. A small business meeting this standard with qualifying research expenses can then choose to apply up to \$250,000 of its research credit against its payroll tax liability.

For eligible small businesses that have already filed their returns for 2016, there is a special rule for tax year 2016. These taxpayers can file an amended return making the election if the return is filed by December 31, 2017.

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