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Decoding the New IRS Form 6765: Key Changes to Research Credit Reporting

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Taxpayers claiming an R&D tax credit on their 2024 returns will see a substantially revamped Form 6765. This article will help taxpayers understand these changes in order to comply with the new reporting requirements.

Impact

Starting for tax year 2024, the IRS implemented a new version of [Form 6765, Credit for Increasing Research Activities](#). The updated Form 6765 and [Instructions](#) change how taxpayers must report their section 41 research credits and the information that accompanies the claim.¹ The IRS is using a “phased approach” in terms of what information is required from taxpayers in which tax years.

The new Form 6765 reflects modifications based on the large volume of comment letters received on the prior versions of the Draft Form 6765. The IRS has stated that these revisions are intended to support ongoing efforts to manage resources more effectively and efficiently, improve the consistency in tax reporting amongst taxpayers, and improve the quality of information collected for tax administration to enhance the IRS’s ability to risk assess returns.

This article discusses the significant changes to IRS Form 6765 for the 2024 tax year and forward, focusing on the enhanced reporting requirements for qualified research expenses (“QREs”) and the details of the phased implementation of new sections.

What Is the Big Picture?

Business Component Reporting: The updated Form 6765 introduces numerous explicit requirements, including the quantification of research credit QREs on a “business component basis.” This means that QREs must be computed by specific projects or business components, rather than aggregated into broad categories.

¹ Unless otherwise indicated, section references are to the Internal Revenue Code of 1986, as amended (the “Code”) or the applicable regulations promulgated pursuant to the Code (the “regulations”).

QREs by Business Component: Taxpayers should aim to quantify their QREs by business component to not only comply with the requirements of the new Form 6765, but to strengthen their research credit claim in the event of a federal or state examination. Note that QRE detail by business component will be required in Section G of the new Form 6765 beginning tax year 2025 and forward.

Statistical Sampling: For taxpayers leveraging statistical sampling procedures in accordance with Rev. Proc. 2011-42 to quantify QREs, the new form instructions require reporting of the top 80% of total QREs, not to exceed the top 50 business components, regardless of their inclusion in the sample. This can be challenging, as these may include projects not initially sampled, making providing certain quantitative and qualitative information extremely burdensome and impractical for some taxpayers. Additional clarifications to the reporting requirements on the use of statistical sampling may be forthcoming in the revised Form 6765 Instructions as the Treasury is accepting comments until June 30, 2025.

Tax Credit Refund Claims: Taxpayers filing for refund claims that involve an increase in the amount of the research tax credit should be aware that they are still subject to the requirements of IRS Chief Counsel Memorandum (“CCM”) 20214101F for tax years prior to 2024. This includes attaching schedules to the amended tax return that provide the following information:

- Identify all the business components to which section 41 research credit claim relates to for that tax year;
- For each business component, identify all research activities performed; and
- Provide the total qualified employee wage expenses, total qualified supply expenses, and total qualified contract research expenses for the claim year.

The Treasury may further clarify how Section G and the CCM 20214101F refund claim procedures will be administered for amended returns for tax years beginning on or after January 1, 2025, when Section G will become mandatory as the instructions already provide an additional requirement that “a description of information sought to be discovered” must be completed for amended tax returns.

Controlled Group Reporting: The new Form 6765 requires that a taxpayer indicate if it is a member of a controlled group or a business under common control. For taxpayers that are a member of a controlled group or business under common control, the instructions have modified the information required to be attached to the tax return. Taxpayers must provide a comprehensive attachment that includes specific line items such as each entity’s EIN, entity name, and details of QREs like wages, supplies, rental/lease of computers, and contract research on a per entity basis, ensuring transparency in how credits are allocated among group members. Taxpayers must also indicate whether the QREs are claimed under a consolidated return or separate returns, aligning with the designated member's method and election as per the regulations.

Presentational Updates to the Form: In addition to the items listed above, the core structure of the form has changed significantly, as outlined below:

- Section 280C election is now at the beginning of the form (Item A).
- Item B asks whether taxpayer is a member of a controlled group.
- Section A (Regular Research Credit) and Section B (Alternative Simplified Credit) no longer include a breakout of QREs by category (i.e., wages, supplies, rental or lease of computers, contract research). This is now separately included in Section F.
- New Sections E and G (as previously discussed).

What Is Required by Year?

Below is a detailed guide to the new questions and information required on the new Form 6765. Additional IRS guidance is expected before the form is finalized for the 2025 tax year.

Tax Year Beginning on 1/1/2024 through 12/31/2024:

- All taxpayers are required to complete Section E, while Section G is optional.

Tax Years Beginning on or after 1/1/2025:

- All taxpayers are required to complete Section E.
- Most taxpayers are required to complete Section G, **unless**:
 - Taxpayer is a Qualified Small Business and opted for a reduced payroll tax credit; or
 - Taxpayer's total QREs are equal to or less than \$1.5 million, determined at the controlled group level, and Taxpayer's gross receipts are equal to or less than \$50 million, as determined under section 448(c)(3) claiming a research credit on an original filed return.

A Detailed Walk-Through of New Sections E and G

The below instructions specific to Sections E and G on the new Form 6765 should serve as a guide to help taxpayers navigate the new form requirements.

“Section E – Other Information” Instructions

Line 37: Enter the total number of business components that make up the current year QREs. This should include all business components, not just those reported in Section G.

KPMG Observation: As stated on Form 6765, taxpayers are to report the number of business components generating the QREs on Line 5 (Regular Credit) or Line 20 (Alternative Simplified Credit), which are required to be reported on a controlled group basis. Based on the Form Instructions, the taxpayer is to indicate the number of business components represented by the QREs reported on Line 48, not just those reported in Section G. With this inconsistency between the form and instructions, confusion exists on how taxpayers are to complete this reporting requirement when filing on a controlled group basis.

Line 38: Enter the amount of officers' wages included in QREs. The corporation determines who qualifies as an officer under the laws of the state in which the company was incorporated.

KPMG Observation: Currently, the Form 6765 Instructions do not clarify whether line 38 is only required to be completed by corporations, as the instructions reference “the corporation” and “corporate officers” and refer taxpayers to the state law of incorporation to define “officers.”

Line 39 asks whether any acquisitions or dispositions were made during the tax year.

KPMG Observation: This should only include an acquisition of a trade or business that would impact the base period calculation of the R&D tax credit.

Line 40 asks whether new categories of expenses were included in current year QREs. The form and form instructions do not provide a definition of “new categories of expenses” to be reported in this line.

KPMG Observation: The IRS appears to be driving at the question “did the taxpayer make a base period adjustment?” However, the current Form 6765 instructions do not define the words “new” and “category” for purposes of line 40, making the reporting requirement unclear.

Line 41 asks whether any of the QREs leveraged the IRS’ ASC 730 Directive, and if so, to include the amount from Appendix C. As provided in the form, the 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.

KPMG Observation: The Instructions do not exempt taxpayers claiming QREs determined under the ASC 730 Directive from addressing Section E, line 37 for ASC 730 Directive QREs. Because QREs determined under the ASC 730 Directive are not identified by business component, the taxpayer is not likely to have the number of business components to report.

Additionally, the final form and instructions are not clear on whether the QREs under the ASC 730 Directive are to be reported on a controlled group basis or under the taxpayer’s standalone QRE amounts.

“Section G – Business Component Information” Instructions

The below information should be listed for each of the included business components (i.e., top 80% of total QREs, not to exceed top 50 business components).

Line 49: Qualitative details for each business component. Taxpayers must provide the EIN and principal business activity code of the controlled group member conducting the research activities for each business component.

Each business component should be identified by name or a unique alphanumeric identifier. Taxpayers are required to classify the business component type, whether it is a product, process, or falls under other categories such as computer software, technique, formula, or invention.

For business components involving software, taxpayers must specify the software type, including internal use software (IUS), dual function software (DFS), software excepted from IUS treatment, or non-internal use software developed for commercial sale or specific interactions. This detailed classification ensures clarity in the software's role within the research activities.

Finally, taxpayers must describe the information sought to be discovered, providing insight into the objectives of the research efforts.

KPMG Observation: Including the “information sought to be discovered” on Line 49(f) is not required for timely filed original returns including extensions. This item is only required if the taxpayer is claiming a refund or credit on an amended return that includes a section 41 credit for increasing research activities that either (a) was not reported on the original filed return or (b) is increased from the amount reported on the original return. Additionally, the current instructions state to “use the space provided” as presented on the form.

Lines 50-53: Wage QRES. Taxpayers must report the QREs related to wages for research activities. This section requires detailed reporting of various types of wages associated with qualified services.

Taxpayers should report the portion of wages attributable to employees directly performing qualified research activities on Line 50, those who directly supervise research activities on Line 51, and those who provide direct support to research activities on Line 52.

Line 53 should include the total qualified wages, which is the sum of the amounts reported on Lines 50, 51, and 52. This total reflects the aggregate of all wage-related QREs.

KPMG Observation: The *Little Sandy Coal v. Commissioner* Tax Court decision disqualified direct supervision and direct support QREs from the numerator of the at least 80% process of experimentation (“POE”) test at the business component level, but the Court of Appeals decision stated that direct supervision and direct support QREs are allowed in the numerator so long as they involve elements of a process of experimentation. While directly conducting, direct supervision, and direct support of research all qualifies for the tax credit, not all taxpayers historically gathered this level of detail to breakout the level of contribution to qualified services. Additional analysis and consideration should be applied when gathering this detail and presenting the breakout of QREs by business component in this new reporting requirement.

Lines 54-56: Supply, Computer Rental, and Contract Research QRES. Taxpayers must report QREs related to supplies, computer costs, and contract research expenses.

Line 54 should include the cost of supplies used directly in conducting qualified research. This includes any tangible materials consumed or utilized during the research process.

Line 55 requires taxpayers to report amounts paid or incurred for the rental or lease of computers used in qualified research activities.

Line 56 relates to contract research expenses. Taxpayers should report 100% of amounts paid or incurred for qualified energy research conducted by eligible small businesses, universities, or federal laboratories; 75% of amounts paid or incurred for research performed by a qualified research consortium, excluding amounts included as basic research payments; and 65% of amounts paid or incurred for all other qualified research by any other entity, again excluding amounts included as basic research payments.

Conclusion

The new form introduces requirements for information that taxpayers typically do not track during their regular business operations or categorize by specific business segments. The new reporting requirements represent a significant change from the Form 6765 that was required for 2023 and will likely increase the compliance burden on most taxpayers. It is important for taxpayers to be aware of these changes and ensure that they are making the necessary operational adjustments to collect the required information to report on their tax returns. As updates arise, the KPMG Washington National Tax team will ensure compliance and understanding of these new requirements.

KPMG has developed numerous technology tools that can significantly help taxpayers efficiently comply with the new Form 6765 requirements. Several examples are listed below:

Research Credit Navigator (“RCN”) technology is a valuable tool for taxpayers navigating the complexities of the new Form 6765. With its comprehensive features, RCN assists in accurately identifying and categorizing qualified research expenses, ensuring compliance with the latest tax rules and regulations. By leveraging RCN, taxpayers can efficiently manage the detailed reporting requirements, such as those related to controlled group reporting and quantification of QREs by business component, ultimately optimizing their research credit claims and increasing the efficiency.

KPMG's **Digital Gateway GenAI** offers innovative tools to assist taxpayers with the quantification and qualification complexities of performing their research credit fieldwork and filing the new 2024 Form 6765. For example, the **Rights and Risks Contract Analysis Reviewer for Sec. 41** efficiently analyzes contracts to ensure taxpayers retain the necessary risk and rights to claim related expenses for the research credit. Meanwhile, the **Documentation Matrix Builder and Document Reviewer for Sec. 41** meticulously reviews technical documents, aligning them with section 41's four-part test criteria, and provides structured outputs in a concise and easy-to-digest format. These Generative AI solutions streamline the research credit process, enhancing accuracy and compliance for taxpayers.

KPMG's **Agile Research Credit Analyzer (“ARCA”)** reviews a taxpayer's data from agile project management systems (JIRA, Git, Wiki, Workday, HR/payroll data) to identify key contributors and their roles in projects, generating an activity nexus matrix to prepopulate time surveys. ARCA aggregates stories into R&D business components, determines appropriate subject matter experts (SMEs), and connects support personnel to specific business components, significantly reducing interview time and effort required for time surveys.

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