

Instructions for Form 8974

(Rev. March 2023)



Department of the Treasury
Internal Revenue Service

Qualified Small Business Payroll Tax Credit for Increasing Research Activities

Section references are to the Internal Revenue Code unless otherwise noted.

Future Developments

For the latest information about developments related to Form 8974 and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form8974](https://www.irs.gov/Form8974).

What's New

The qualified small business payroll tax credit for increasing research activities has increased and been modified. For tax years beginning before January 1, 2023, a qualified small business may elect to claim up to \$250,000 of its credit for increasing research activities as a payroll tax credit. The Inflation Reduction Act of 2022 (the IRA) increases the election amount to \$500,000 for tax years beginning after December 31, 2022. The payroll tax credit election must be made on or before the due date of the originally filed income tax return (including extensions). The portion of the credit used against payroll taxes is allowed in the first calendar quarter beginning after the date that the qualified small business filed its income tax return. The election and determination of the credit amount that will be used against the employer's payroll taxes are made on Form 6765, Credit for Increasing Research Activities. The amount from Form 6765, line 44, must then be reported on Form 8974. Starting in the first quarter of 2023, the payroll tax credit is first used to reduce the employer share of social security tax up to \$250,000 per quarter and any remaining credit reduces the employer share of Medicare tax for the quarter. Any remaining credit, after reducing the employer share of social security tax and the employer share of Medicare tax, is then carried forward to the next quarter. For more information about the payroll tax credit, go to [IRS.gov/ResearchPayrollTC](https://www.irs.gov/ResearchPayrollTC).

General Instructions

Purpose of Form 8974

Use Form 8974 to determine the amount of the qualified small business payroll tax credit for increasing research activities that you can claim on Form 941, Employer's QUARTERLY Federal Tax Return; Form 941-SS, Employer's QUARTERLY Federal Tax Return—American Samoa, Guam, the Commonwealth of the Northern Mariana Islands, and the U.S. Virgin Islands; Form 941-PR, Planilla para la Declaración Federal TRIMESTRAL del Patrono; Form 943, Employer's Annual Federal Tax Return for Agricultural Employees; Form 943-PR, Planilla para la Declaración Anual de la Contribución Federal del Patrono de Empleados Agrícolas; Form 944, Employer's ANNUAL Federal Tax

Return; or Form 944(SP), Declaración Federal ANUAL de Impuestos del Patrono o Empleador.

All references to Form 941 in these instructions also apply to Forms 941-SS and 941-PR. All references to Form 943 in these instructions also apply to Form 943-PR. All references to Form 944 in these instructions also apply to Form 944(SP).

Who Must File Form 8974?

You must file Form 8974 and attach it to Form 941, 943, or 944 if you made an election on your income tax return to claim the qualified small business payroll tax credit for increasing research activities against your payroll taxes. The payroll tax credit must be elected on an original income tax return that is timely filed (including extensions). The election is made on Form 6765. If you haven't filed the income tax return making the election to claim the payroll tax credit on Form 6765, you can't file Form 8974 and can't claim the qualified small business payroll tax credit for increasing research activities against your payroll taxes on Form 941, 943, or 944.



You can't claim the qualified small business payroll tax credit for increasing research activities on Form 941, 943, or 944 unless you make the election on Form 6765 and then file Form 8974 attached to Form 941, 943, or 944.

Aggregate Form 941 or Form 943

If you're a section 3504 agent or a certified professional employer organization (CPEO), you must complete Schedule R (Form 941), Allocation Schedule for Aggregate Form 941 Filers, when filing an aggregate Form 941, or Schedule R (Form 943), Allocation Schedule for Aggregate Form 943 Filers, when filing an aggregate Form 943. Other third-party payers that file an aggregate Form 941 or 943, such as non-certified PEOs, must complete and file Schedule R if they have clients that are claiming the qualified small business payroll tax credit for increasing research activities. For you to claim the credit, your client must be a qualified small business and must elect to apply the research credit against payroll tax liability by attaching Form 6765 to its timely filed income tax return. Additionally, you must attach a Form 8974 for each client that is taking the credit. See the instructions for [Line 8](#), [Line 9](#), and [Line 14](#), later, for more information. Also, go to [IRS.gov/ResearchPayrollTC](https://www.irs.gov/ResearchPayrollTC) for more information.

Correcting Form 8974

If you discover an error on a previously filed Form 8974, make the correction by filing Form 941-X, Adjusted Employer's QUARTERLY Federal Tax Return or Claim for Refund; Form 943-X, Adjusted Employer's Annual Federal Tax Return for Agricultural Employees or Claim for Refund; or Form 944-X, Adjusted Employer's ANNUAL

Federal Tax Return or Claim for Refund, as applicable. Attach a corrected Form 8974 to your amended return. For more information, see the instructions for Form 941-X, 943-X, or 944-X.

When Must You File?

Quarterly Form 941 Filers

You can first claim the qualified small business payroll tax credit for increasing research activities on the Form 941 for the quarter that begins after you file your income tax return that makes the election on Form 6765. The Form 941 for that quarter is the Form 941 on which you're required to claim the credit. You can't claim the credit related to this election on a different quarter's Form 941 unless it is to take a carryforward credit from the required quarter, as determined on Form 8974.

Example for Form 941 filers. If you file your 2022 income tax return based on a calendar year (January 1–December 31) on March 15, 2023, the 2023 second quarter (April 1, 2023–June 30, 2023) Form 941, which is filed by July 31, 2023, is the first quarter that you can take the qualified small business payroll tax credit for increasing research activities.

Annual Form 943 or 944 Filers

You can first claim the qualified small business payroll tax credit for increasing research activities on the Form 943 or 944 for the year that includes the quarter that begins after you file your income tax return that makes the election on Form 6765. The Form 943 or 944 for the year that includes that quarter is the Form 943 or 944 on which you're required to claim the credit. You can't claim the credit related to this election on a Form 943 or 944 for a different year unless it is to take a carryforward credit from the required year, as determined on Form 8974.

Example for Form 943 or 944 Filers. If you filed your 2022 income tax return based on a calendar year (January 1–December 31) on March 15, 2023, the 2023 second quarter (April 1, 2023–June 30, 2023) is the first quarter that you can take the qualified small business payroll tax credit for increasing research activities. Therefore, the 2023 Form 943 or 944, which is filed by January 31, 2024, is the first year on which you can claim the credit.

Specific Instructions

Enter Your Business Information

Enter your employer identification number (EIN) and name at the top of Form 8974. Make sure that they exactly match the name of your business and the EIN that the IRS assigned to your business and also match the name and EIN shown on Form 941, 943, or 944. Also check a box to tell us on which form you'll take the credit from Part 2, line 12 or, if applicable, line 17. Check only one box.



If you're filing Schedule R with Form 941 or Form 943, the EIN entered at the top of each client's or customer's Form 8974 must be the EIN of the client or customer.

Calendar Year

Enter the calendar year as shown on the attached Form 941, 943, or 944.

Check the Box for the Quarter (Forms 941, 941-PR, and 941-SS Only)

Under *Report for this quarter* at the top of Form 8974, check the appropriate box of the quarter for which you're filing Form 8974. The quarter must match the quarter as shown on Form 941. Check only one box.

Part 1: Tell Us About Your Income Tax Return

Lines 1–5

The payroll tax credit election on Form 6765 is limited to 5 tax years (including if members of your controlled group previously made the election). Use lines 1–5 to report the credit from each tax year. Enter the income tax years in chronological order with the earliest year entered on line 1. You must continue to report each income tax year election until the remaining credit (column (g)) for the income tax year reaches zero.

Column (a)

Enter the ending date of your income tax period. Enter the date as "MM/DD/YYYY." For example, if your 2022 income tax return was for a calendar year, enter "12/31/2022." If your income tax return was for a fiscal year that ended on June 30, 2022, enter "06/30/2022."

Column (b)

Tell us which income tax return you filed that elected a qualified small business payroll tax credit on Form 6765. Form 6765 can be attached to Form 1040, 1065, 1120, 1120-F, or 1120-S.

Column (c)

Tell us the date that you filed your income tax return that is shown in column (b). Enter the date as "MM/DD/YYYY" (for example, "03/15/2023").

Column (d)

If the EIN used on Form 8974 isn't the same as the EIN used on Form 6765, enter the EIN that was used on Form 6765. Generally, the EIN used on Form 8974 should be the same as the EIN used on Form 6765. However, if you're a member of a controlled group of corporations (as defined in sections 41(f)(1)(A) and (f)(5)) or a member of a group of trades or businesses under common control (as defined in section 41(f)(1)(B) and Regulations section 1.41-6(a)(3)(ii)), the EIN used on Form 6765 may be different from the EIN that you must use on Form 8974.

Column (e)

Generally, enter the amount from Form 6765, line 44. However, if you're a member of a controlled group of

corporations (as defined in sections 41(f)(1)(A) and (f)(5)) or a member of a group of trades or businesses under common control (as defined in section 41(f)(1)(B) and Regulations section 1.41-6(a)(3)(ii)), enter the amount of the credit that was allocated to your EIN. As a member, your credit is determined on a proportionate basis to your share of the aggregate qualified research expenses for increasing research activities taken into account by the group for the research credit. The amount entered in column (e) may not exceed \$250,000 for each income tax year beginning before January 1, 2023. For each income tax year beginning after December 31, 2022, the amount entered in column (e) may not exceed \$500,000.

Column (f)

Enter the amount of the credit from column (e) that was taken in a previous period or previous periods.

Column (g)

Subtract column (f) from column (e) and enter the result in column (g). Add all of the amounts in column (g) of lines 1–5, and enter the result on line 6, column (g). This is the total amount of credit you have available for the current quarter (Form 941) or year (Form 943 or 944).

Carryforward. If the qualified small business payroll tax credit for increasing research activities reported in column (e) can't be fully used in the first quarter after the income tax return is filed because it was limited to the amount of the employer share of social security tax (and the employer share of Medicare tax for quarters beginning after December 31, 2022) on the wages of your employees for the quarter, you can carry forward any unused amount to the next quarter. If, in the next quarter the amount carried over from the first quarter can't be fully used, then you can carry forward any unused amount to subsequent quarters.

Example. You elected to take \$100,000 as a qualified small business payroll tax credit for increasing research activities when you filed your 2022 income tax return on March 15, 2023. On the Form 8974 that you attach to your second quarter 2023 Form 941, you enter \$100,000 in column (e), leave column (f) blank because the second quarter of 2023 is the first time you're using the elected amount from your 2022 income tax return, and enter \$100,000 in column (g). You complete lines 7–17 and learn that you can only use \$75,000 of the credit for the second quarter of 2023. You have a \$25,000 carryforward to the third quarter of 2023.

On the Form 8974 that you attach to your third quarter 2023 Form 941, you'll enter on line 1, columns (a)–(d), the same information (your 2022 income tax return information) that you reported on the previously filed Form 8974, line 1, columns (a)–(d) (the Form 8974 that you attached to your second quarter 2023 Form 941). You'll enter \$100,000 in column (e) (same as you did for the second quarter of 2023) but now you must also enter \$75,000 in column (f) because this is the amount of the credit from column (e) that you claimed in a previous period. You'll enter \$25,000 in column (g), which is your carryforward from the prior quarter.



The discussion under [Carryforward](#) above also applies to Forms 943 and 944. However, the remaining credit from one year is carried forward to the following year.

Additional years. If you claim the payroll tax credit on Form 6765 on an additional year's income tax return, you'll enter the additional payroll tax credit using the additional rows in Part 1, with the earliest year entered on line 1. There are 5 rows in Part 1 because the payroll tax credit election is limited to 5 tax years. While the amount you enter in column (e) may not exceed \$250,000 per row for each income tax year beginning before January 1, 2023, and \$500,000 for each income tax year beginning after December 31, 2022, the total amount entered on line 6, column (g), and line 7 may exceed \$500,000 if you claimed the credit in multiple years and you're still carrying forward unused credit from earlier years.

Part 2: Determine the Credit That You Can Use This Period

Line 7

Enter the amount from Part 1, line 6, column (g).

Line 8

Enter the amount from Form 941, line 5a, column 2; Form 943, line 3; or Form 944, line 4a, column 2. This is the total amount of social security tax on wages.



If you're filing an aggregate Form 941 or 943, you must file a Form 8974 for each client that is taking the qualified small business payroll tax credit for increasing research activities. Also, you can't enter the amount from Form 941, line 5a, column 2; or Form 943, line 3, on line 8 of any of the Forms 8974 that are attached to the aggregate Form 941 or 943. This portion of the credit is based on each employer's liability for social security tax. Therefore, you must enter on line 8 of each client's Form 8974 the amount that the client would've reported on Form 941, line 5a, column 2; or Form 943, line 3, if the client filed its own Form 941 or 943. See [Line 11 Adjustment for Filers of Form 943 or 944](#), later, for additional adjustments you may need to make if you file Form 943.

Line 9

Enter the amount from Form 941, line 5b, column 2; or Form 944, line 4b, column 2. This is the total amount of social security tax on tips.



If you're filing an aggregate Form 941, you must file a Form 8974 for each client that is taking the qualified small business payroll tax credit for increasing research activities. Also, you can't enter the amount from Form 941, line 5b, column 2, on line 9 of any of the Forms 8974 that are attached to the aggregate Form 941. This portion of the credit is based on each employer's liability for social security tax. Therefore, you must enter on line 9 of each client's Form 8974 the amount that the client would've reported on Form 941, line 5b, column 2, if the client filed its own Form 941.

Line 10

Add lines 8 and 9. Enter the result on line 10.

Line 11

Multiply line 10 by 50% (0.50). The first \$250,000 of the qualified small business payroll tax credit for increasing research activities can only be used against the employer's share of social security tax reported on Form 941, 943, or 944. The amount on line 10 is the total amount of social security tax (both the employer and employee share), so you must multiply line 10 by 50% to limit the credit to the employer's share of social security tax.



CAUTION If you file Form 943 or 944, don't multiply line 10 by 50%. Instead, see [Line 11 Adjustment for Filers of Form 943 or 944](#), later. If you're a third-party payer of sick pay or you received a Section 3121(q) Notice and Demand, check the applicable box on line 11 and see the instructions next.

Third-Party Payers of Sick Pay



TIP If you're a third-party payer of sick pay that files Form 944, you can follow the directions below by substituting references to Form 941, line 8, with Form 944, line 6; and Form 941, line 5a, column 2, with Form 944, line 4a, column 2.

You can only take up to \$250,000 of the qualified small business payroll tax credit for increasing research activities against the employer's share of social security tax on wages paid to your employees each quarter. Because the amount entered on Form 8974, line 8, included social security tax for your clients' employees, you must make an adjustment to the amount reported on Form 8974, line 11.

Adjustment if you transferred liability. If you transferred the liability for the employer's share of social security tax to the employer (client), you must reduce the amount reported on Form 8974, line 11, by the amount of social security tax included on Form 941, line 8. Don't just subtract the amount reported on Form 941, line 8, because that line includes both social security tax and Medicare tax.

Line 11 (before considering Form 941, line 8)
– Amount of social security tax included on Form 941, line 8
= Final amount to enter on line 11

Example. You entered \$12,400 on Form 8974, line 8, and zero on line 9. Line 10 was also \$12,400. 50% of line 10 is \$6,200. However, this amount must be adjusted because you reported \$6,120 (\$4,960 of social security tax and \$1,160 of Medicare tax) on Form 941, line 8. You must subtract \$4,960 (amount of social security tax reported on Form 941, line 8) from \$6,200 (50% of the amount reported on line 10) and enter \$1,240 on line 11.

Adjustment if you didn't transfer liability. If you didn't transfer the liability for the employer's share of social security tax to the employer (client) and you paid the

employer social security tax on the third-party sick pay that you paid on behalf of the client, you must reduce the amount reported on line 11 by any employer social security tax (included on Form 941, line 5a, column 2) that was for the employees of the client.

Line 11 (before adjustment for third-party sick pay)
– Amount of employer's share of social security tax (on wages paid to clients' employees) included on Form 941, line 5a, column 2
= Final amount to enter on line 11

Example. You entered \$12,400 on Form 8974, line 8, and zero on line 9. Line 10 was also \$12,400. 50% of line 10 is \$6,200. However, this amount must be adjusted because the amount from Form 941, line 5a, column 2, that was entered on line 8 included the employer's share of social security tax that you paid for the wages paid to your client's employees. There isn't a line on Form 941 that can assist in this calculation but you must still determine the amount of Form 941, line 5a, column 2, that was for wages paid to your client's employees. For purposes of this example, if you determine that \$5,000 of the employer's social security tax included on Form 941, line 5a, column 2, was attributable to your client's employees, you must subtract \$5,000 from \$6,200 (50% of the amount reported on line 10) and enter \$1,200 on line 11.

Section 3121(q) Notice and Demand

If you received a Section 3121(q) Notice and Demand for tax due on unreported tips (Letter 3263 or Letter 4520) during the quarter, you report the amount for the employer's share of social security tax and Medicare tax on Form 941, line 5f. Letter 3263 or Letter 4520 includes an attachment that shows the employer's share of social security tax. You must add the employer's share of social security tax to the amount reported on Form 8974, line 11.

Line 11 (before considering a Section 3121(q) Notice and Demand)
+ Employer's share of social security tax from Letter 3263 or Letter 4520
= Final amount to enter on line 11

Example. You entered \$12,400 on Form 8974, line 8, and \$6,200 on line 9. Line 10 was \$18,600. 50% of line 10 is \$9,300, but you also reported an amount on Form 941, line 5f, because you received Letter 3263. Letter 3263 showed unreported tips of \$20,000 and tax due of \$1,530. The attachment to Letter 3263 listed your liability for tax on unreported tips as follows.

- Employer's share of social security tax: \$1,240
- Employer's share of Medicare tax: \$290

You must add \$1,240 (employer's share of social security tax from Letter 3263) to \$9,300 (50% of the amount reported on line 10) and enter \$10,540 on line 11.

Line 11 Adjustment for Filers of Form 943 or 944

Employers who report their payroll taxes on an annual basis (Forms 943 and 944) may need to adjust the amount reported on Form 8974, line 11, because the qualified small business payroll tax credit for increasing research activities can't be claimed until the first calendar quarter that begins after the date on which you file your income tax return that makes the election to take the credit against payroll taxes. The amount reported on Form 8974, line 10, is the total amount of social security tax (both employer and employee share) for the whole year, but you can only apply this portion of the credit against the employer share of social security tax paid in calendar quarters that began after the date on which you filed your income tax return making the election. You can't apply the credit against the employer share of social security tax paid in any calendar quarter that began before the date on which you filed your income tax return making the election. You may therefore need to adjust the amount you report on Form 8974, line 11, to be 50% of the total social security tax that you paid in the quarters after the income tax return making the election was filed. However, as discussed later, the credit or any previous credit carried forward is first taken against the employer share of social security tax up to \$250,000 per quarter, then any remaining elected credit or any previous credit carried forward is taken against the employer share of Medicare tax, and then any unused credit is available to be carried forward to the next quarter.

When filing Form 943 or Form 944 and claiming the payroll tax credit, you'll need to adjust the amount you report on line 11 if it is the first year claiming the credit, or a subsequent year claiming the credit and the income tax return electing the credit was filed on any date in the first 3 quarters of the calendar year (that is, January 1–September 30). In contrast, if you made the election on an income tax return filed in the fourth quarter of the year (October 1–December 31), you can't claim the credit until the first quarter of the subsequent year on your employment tax return for that subsequent year, and you won't need to make the adjustment for line 11 described here on your Form 8974 for that subsequent year because this portion of the credit can be applied against the employer social security tax paid in all four quarters of that subsequent year. The instructions next explain the adjustment in two situations: (1) you're claiming the credit, but you don't have a credit carryforward from a prior year; and (2) you're claiming the credit in a subsequent year based on an election in that subsequent year with a credit carryforward from a prior year.

First year claiming the credit or subsequent year claiming the credit but without a credit carryforward from a prior year.

Steps to determine the amount to report on Form 8974, line 11.

1. Determine the amount of social security tax reported on Form 8974, line 10, attributable to each quarter of the year that is reported in the calendar year box at the top of Form 8974 and enter these amounts in the table below in column (b). Multiply each quarter's

social security tax by 50% (0.50) and enter the amounts in column (c).

(a) Quarter	(b) Social security tax	(c) Multiply column (b) by 50% (0.50)	(d) Amount from column (c) to include on Form 8974, line 11
First (Jan. 1–Mar. 31)			
Second (Apr. 1–June 30)			
Third (July 1–Sept. 30)			
Fourth (Oct. 1–Dec. 31)			
Total			

2. Determine when the election was made (that is, the date that you filed your income tax return as reported on Form 8974, Part 1, column (c)).

3. Enter in column (d) the amounts from column (c) for the quarters that began after the date determined above in Step 2. Add the amounts in column (d), and enter the total on Form 8974, line 11.

Form 943 example (first year claiming the credit).

You filed your 2022 income tax return based on a calendar year (January 1–December 31) on April 18, 2023. You elected to take a \$100,000 payroll tax credit for increasing research activities on the Form 6765 that you filed with your 2022 income tax return. You'll claim the payroll tax credit on your 2023 Form 943 that you file in January 2024. In January 2024, you prepare your 2023 Form 943 and Form 8974 to take the payroll credit. The amount you figured on Form 8974, line 10, for total social security tax paid in 2023 is \$80,000. Following Step 1 above, you determine the following social security tax breakdown by quarter.

(a) Quarter	(b) Social security tax	(c) Multiply column (b) by 50% (0.50)	(d) Amount from column (c) to include on Form 8974, line 11
First (Jan. 1–Mar. 31)	\$12,000	\$6,000	
Second (Apr. 1–June 30)	\$18,000	\$9,000	
Third (July 1–Sept. 30)	\$25,000	\$12,500	\$12,500
Fourth (Oct. 1–Dec. 31)	\$25,000	\$12,500	\$12,500
Total	\$80,000	\$40,000	\$25,000

For purposes of Step 2, your income tax return was filed on April 18, 2023. In Step 3, you enter in column (d) the amounts from column (c) for the quarters that began after April 18: \$12,500 for the third quarter and \$12,500

for the fourth quarter. You add the amounts in column (d) and you enter the total, \$25,000, on Form 8974, line 11. In this example, you'll also have \$75,000 of credit remaining that will be used against the employer share of Medicare tax applicable to the third and fourth quarters. Any remaining credit, after reducing the employer share of social security tax and the employer share of Medicare tax, is then carried forward to your 2024 Form 943.

Subsequent year claiming the credit with a credit carryforward from a prior year. Determine if you're carrying forward any remaining credit from a prior year. If this is the first year that you're claiming the credit, you don't have any carryforward. If this isn't the first year that you're claiming the credit, the amount of carryforward remaining is reported on Form 8974, Part 1, column (g), of your current Form 8974. However, don't count any amount from a new election as a carryforward from a prior year. The amount carried forward from the prior calendar year is available to use against the employer share of social security tax paid in the first calendar quarter of the current year and subsequent quarters, because the first calendar quarter began after the date on which you filed your income tax return for the prior year. However, the amounts claimed in the current calendar year for an election made on an income tax return filed in the current year may only be used against the employer share of social security tax paid in calendar quarters that began after the date on which you filed your income tax return as explained earlier.

Steps to determine the amount to report on Form 8974, line 11.

1. Determine the amount of social security tax reported on Form 8974, line 10, attributable to each quarter of the year that is reported in the calendar year box at the top of Form 8974 and enter these amounts in the table below in column (b). Multiply each quarter's social security tax by 50% (0.50) and enter the amounts in column (c).

(a) Quarter	(b) Social security tax	(c) Multiply column (b) by 50% (0.50)	(d) Amount from column (c) to include on Form 8974, line 11
First (Jan. 1–Mar. 31)			
Second (Apr. 1–June 30)			
Third (July 1–Sept. 30)			
Fourth (Oct. 1–Dec. 31)			
Total			

2. Add the amounts in column (c) until you reach the amount of the credit carried forward from the prior year and enter these amounts in column (d). For this step, don't include in column (d) more than the amount of the credit that you carried forward.

3. For the credit claimed in the current year, determine when the election was made (that is, the date that you filed your income tax return as reported on Form 8974, Part 1, column (c)).

4. For the quarters that began after the date determined above in Step 3, enter in column (d) any amounts in column (c) not previously used. Add the amounts in column (d), and enter the total on Form 8974, line 11. If the amounts you figured in Step 2 carry forward into the same quarter as the amounts you figure in Step 4, you should include both amounts in that quarter's total in column (d).

Form 943 example (subsequent year claiming the credit with a credit carryforward from a prior year). Continuing with the previous example, you use \$20,000 of \$75,000 credit remaining against the employer share of Medicare tax applicable to the third and fourth quarters of 2023. The remaining \$55,000 credit, after reducing the employer share of social security tax and the employer share of Medicare tax, is carried forward to your 2024 Form 943. You filed your 2023 income tax return based on a calendar year (January 1–December 31) on April 15, 2024. You elected to take a \$200,000 payroll tax credit for increasing research activities on the Form 6765 that you filed with your 2023 income tax return. You'll claim the payroll tax credit on your 2024 Form 943 that you file in January 2025. In January 2025, you prepare your 2024 Form 943 and Form 8974 to take the payroll credit. The amount on Form 8974, line 7, is \$255,000 (\$55,000 carried forward from 2023, and \$200,000 for 2024). The amount you figured on Form 8974, line 10, for total social security tax paid in 2024 is \$400,000.

Following Step 1 above, you determine the following breakdown by quarter and enter the amounts in columns (b) and (c).

(a) Quarter	(b) Social security tax	(c) Multiply column (b) by 50% (0.50)	(d) Amount from column (c) to include on Form 8974, line 11
First (Jan. 1–Mar. 31)	\$80,000	\$40,000	\$40,000
Second (Apr. 1–June 30)	\$90,000	\$45,000	\$15,000
Third (July 1–Sept. 30)	\$100,000	\$50,000	\$50,000
Fourth (Oct. 1–Dec. 31)	\$130,000	\$65,000	\$65,000
Total	\$400,000	\$200,000	\$170,000

Following Step 2, you add the amounts in column (c) until you reach the amount of the credit carried forward from the prior year (\$55,000 (\$40,000 and \$15,000)) and you enter these amounts in column (d). Your carryforward credit of \$55,000 is now completely used up. For purposes of Step 3, your income tax return was filed on April 15, 2024. In Step 4, for the quarters that began after the date determined above in Step 3 (third and fourth quarters), enter in column (d) any amounts in column (c)

not previously used (\$50,000 and \$65,000). You add the amounts in column (d) and you enter the total, \$170,000, on Form 8974, line 11. Your total payroll tax credit for 2024 is \$170,000 (\$55,000 carried forward from your 2023 Form 8974 and \$115,000 from your 2024 Form 8974). In this example, you'll also have \$85,000 of credit remaining that will be used against the employer share of Medicare tax applicable to the third and fourth quarters. Any remaining credit, after reducing the employer share of social security tax and the employer share of Medicare tax, is then carried forward to your 2025 Form 943.

Line 12

Enter the smaller of line 7 or 11, but not more than \$250,000 per quarter (Form 943 or 944 not more than \$1 million per year). If you entered the amount from line 7, stop here and also enter this amount on Form 941, line 11a; Form 943, line 12a; or Form 944, line 8a. This is the total credit against the employer share of social security tax. If line 12 is less than line 7, see the instructions for lines 13–17. Any remaining elected credit or any previous credit carried forward is taken against the employer share of Medicare tax, and then any unused credit is carried forward to the next quarter (Form 941) or year (Form 943 or 944).

Line 13

Subtract line 12 from line 7. Enter the result on line 13.

Line 14

Enter the amount from Form 941, line 5c, column 2; Form 943, line 5; or Form 944, line 4c, column 2. This is the total amount of Medicare tax on wages.



If you're filing an aggregate Form 941 or 943, you must file a Form 8974 for each client that is taking the qualified small business payroll tax credit for increasing research activities. Also, you can't enter the amount from Form 941, line 5c, column 2; or Form 943, line 5, on line 14 of any of the Forms 8974 that are attached to the aggregate Form 941 or 943. This portion of the credit is based on each employer's liability for Medicare tax. Therefore, you must enter on line 14 of each client's Form 8974 the amount that the client would've reported on Form 941, line 5c, column 2; or Form 943, line 5, if the client filed its own Form 941 or 943. See [Line 15 Adjustment for Filers of Form 943 or 944](#), later, for additional adjustments you may need to make if you file Form 943.

Line 15

Multiply line 14 by 50% (0.50). The amount of qualified small business payroll tax credit for increasing research activities that can be used against the employer's share of Medicare tax is limited to the amount of the employer's share of Medicare tax reported on Form 941, 943, or 944. The amount on line 14 is the total amount of Medicare tax (both the employer and employee share), so you must multiply line 14 by 50% to limit the credit to the employer's share of Medicare tax.



If you file Form 943 or 944, don't multiply line 14 by 50%. Instead, see [Line 15 Adjustment for Filers of Form 943 or 944](#), later. If you're a third-party payer of sick pay or you received a Section 3121(q) Notice and Demand, check the applicable box on line 11 and see the instructions next.

Third-Party Payers of Sick Pay



If you're a third-party payer of sick pay that files Form 944, you can follow the directions below by substituting references to Form 941, line 8, with Form 944, line 6; and Form 941, line 5c, column 2, with Form 944, line 4c, column 2.

This portion of the qualified small business payroll tax credit for increasing research activities is used against the employer's share of Medicare tax on wages paid to your employees. Because the amount entered on Form 8974, line 14, included Medicare tax for your clients' employees, you must make an adjustment to the amount reported on Form 8974, line 15.

Adjustment if you transferred liability. If you transferred the liability for the employer's share of Medicare tax to the employer (client), you must reduce the amount reported on Form 8974, line 15, by the amount of Medicare tax included on Form 941, line 8. Don't just subtract the amount reported on Form 941, line 8, because that line includes both social security tax and Medicare tax.

Line 15 (before considering Form 941, line 8)
– Amount of Medicare tax included on Form 941, line 8
= Final amount to enter on line 15

Example. You entered \$2,900 on Form 8974, line 14. 50% of line 14 is \$1,450. However, this amount must be adjusted because you reported \$6,120 (\$4,960 of social security tax and \$1,160 of Medicare tax) on Form 941, line 8. You must subtract \$1,160 (amount of Medicare tax reported on Form 941, line 8) from \$1,450 (50% of the amount reported on line 14) and enter \$290 on line 15.

Adjustment if you didn't transfer liability. If you didn't transfer the liability for the employer's share of Medicare tax to the employer (client) and you paid the employer Medicare tax on the third-party sick pay that you paid on behalf of the client, you must reduce the amount reported on line 15 by any employer Medicare tax (included on Form 941, line 5c, column 2) that was for the employees of the client.

Line 15 (before adjustment for third-party sick pay)
– Amount of employer's share of Medicare tax (on wages paid to clients' employees) included on Form 941, line 5c, column 2
= Final amount to enter on line 15

Example. You entered \$2,900 on Form 8974, line 14. 50% of line 14 is \$1,450. However, this amount must be adjusted because the amount from Form 941, line 5c, column 2, that was entered on line 14 included the

employer's share of Medicare tax that you paid for the wages paid to your client's employees. There isn't a line on Form 941 that can assist in this calculation but you must still determine the amount of Form 941, line 5c, column 2, that was for wages paid to your client's employees. For purposes of this example, if you determine that \$1,150 of the employer's Medicare tax included on Form 941, line 5c, column 2, was attributable to your client's employees, you must subtract \$1,150 from \$1,450 (50% of the amount reported on line 14) and enter \$300 on line 15.

Section 3121(q) Notice and Demand

If you received a Section 3121(q) Notice and Demand for tax due on unreported tips (Letter 3263 or Letter 4520) during the quarter, you report the amount for the employer's share of social security tax and Medicare tax on Form 941, line 5f. Letter 3263 or Letter 4520 includes an attachment that shows the employer's share of Medicare tax. You must add the employer's share of Medicare tax to the amount reported on Form 8974, line 15.

Line 15 (before considering a Section 3121(q) Notice and Demand)
 + Employer's share of Medicare tax from Letter 3263 or Letter 4520

= Final amount to enter on line 15

Example. You entered \$4,350 on Form 8974, line 14. 50% of line 14 is \$2,175, but you also reported an amount on Form 941, line 5f, because you received Letter 3263. Letter 3263 showed unreported tips of \$20,000 and tax due of \$1,530. The attachment to Letter 3263 listed your liability for tax on unreported tips as follows.

- Employer's share of social security tax: \$1,240
- Employer's share of Medicare tax: \$290

You must add \$290 (employer's share of Medicare tax from Letter 3263) to \$2,175 (50% of the amount reported on line 14) and enter \$2,465 on line 15.

Line 15 Adjustment for Filers of Form 943 or 944

If you had credit remaining after reducing the employer share of social security tax, that remaining credit goes against the employer share of Medicare tax. Employers who report their payroll taxes on an annual basis (Forms 943 and 944) may need to adjust the amount reported on Form 8974, line 15, because the qualified small business payroll tax credit for increasing research activities can't be claimed until the first calendar quarter that begins after the date on which you file your income tax return that makes the election to take the credit against payroll taxes. The amount reported on Form 8974, line 14, is the total amount of Medicare tax (both employer and employee share) for the whole year, but you can only apply this portion of the credit against the employer share of Medicare tax paid in calendar quarters that began after the date on which you filed your income tax return making the election. You can't apply the credit against the

employer share of Medicare tax paid in any calendar quarter that began before the date on which you filed your income tax return making the election. You may therefore need to adjust the amount you report on Form 8974, line 15, to be 50% of the total Medicare tax that you paid in the quarters after the income tax return making the election was filed. To make this adjustment, you can use the tables in the instructions for [line 11](#) by substituting column (b) with Medicare tax and substituting references to Form 8974, line 10, with Form 8974, line 14, and references to Form 8974, line 11, with Form 8974, line 15.

Line 16

Enter the smaller of line 13 or 15. This is the total credit against the employer share of Medicare tax.

Line 17

Add lines 12 and 16. Also, enter this amount on Form 941, line 11a; Form 943, line 12a; or Form 944, line 8a. This is the total qualified small business payroll tax credit for increasing research activities.

Paperwork Reduction Act Notice. We ask for the information on Form 8974 to carry out the Internal Revenue laws of the United States. You're required to give us the information. We need it to ensure that you're complying with these laws and to allow us to figure and collect the right amount of tax.

You're not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Code section 6103.

The time needed to complete and file Form 8974 will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	45 min.
Learning about the law or the form	1 hr.
Preparing and sending the form to the IRS	1 hr.

If you have comments concerning the accuracy of these time estimates or suggestions for making Form 8974 simpler, we would be happy to hear from you. You can send us comments from [IRS.gov/FormComments](https://www.irs.gov/FormComments). Or you can write to the Internal Revenue Service, Tax Forms and Publications Division, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. Don't send Form 8974 to this address. Instead, see *Where Should You File?* in the Instructions for Form 941 or the Instructions for Form 944; or see *Where To File* in the Instructions for Form 943.