

Supporting Statement  
Internal Revenue Service  
Form 6765, Credit for Increasing Research Activities  
OMB Control Number 1545-0619

1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION

Internal Revenue Code (IRC) Section 38 allows a business tax credit for specific business activities in this case research activities. This credit can be carried forward to future tax years and in some cases carried back to previous tax years.

IRC Section 41 defines and explains the requirements that must be met to claim a tax credit for increasing research activities.

IRC Section 280C requires taxpayers who claim the tax credit for increasing research activities to reduce their deduction for research expenses allowable by the amount the research credit exceeds the allowable research expenses.

Form 6765, Credit for Increasing Research Activities is used to figure and claim the credit for increasing research activities, and to elect the reduced credit under section 280C, and to elect to claim a certain amount of the credit as a payroll tax credit against the employer portion of social security taxes. Partnerships, S corporations and estate or trust if the credit can be allocated to beneficiaries must file Form 6765 to claim the research credit.

2. USE OF DATA

The form provides the Internal Revenue Service (IRS) with the information necessary to determine that the credit was correctly computed and that the proper amount was claimed.

3. USE OF IMPROVED INFORMATION TECHNOLOGY TO REDUCE BURDEN

The IRS is currently offering electronic filing for Form 6765.

4. EFFORTS TO IDENTIFY DUPLICATION

The information obtained through this collection is unique and is not already available for use or adaptation from another source.

5. METHODS TO MINIMIZE BURDEN ON SMALL BUSINESSES OR OTHER SMALL ENTITIES

The collection of information requirement will not have a significant economic impact on a substantial number of small entities.

6. CONSEQUENCES OF LESS FREQUENT COLLECTION ON FEDERAL PROGRAMS OR POLICY ACTIVITIES

Consequences of less frequent collection on federal programs or policy activities would result in the IRS unable to comply with requirements of section 41 to determine that the credit was correctly computed and that the proper amount was claimed; thereby endangering the ability of the IRS to meet its mission.

7. SPECIAL CIRCUMSTANCES REQUIRING DATA COLLECTION TO BE INCONSISTENT WITH GUIDELINES IN 5 CFR 1320.5(d)(2)

There are no special circumstances requiring data collection to be inconsistent with guidelines in 5 CFR 1320.5(d)(2).

8. CONSULTATION WITH INDIVIDUALS OUTSIDE OF THE AGENCY ON AVAILABILITY OF DATA, FREQUENCY OF COLLECTION, CLARITY OF INSTRUCTIONS AND FORMS, AND DATA ELEMENTS

In response to the Federal Register notice dated March 6, 2024 (89 FR 16087), IRS received one comment during the comment period regarding Form 6765, from the Lindsey King, R&D Success Manager, CAPSTAN. The summary of the comments and the IRS responses are below:

**CAPSTAN Comments dated May 6, 2024  
F6765 Credit for Increasing Research Activities**

Note: question numbers are based on the order of questions/comments in email sent from Lindsey King.

<b>Summary of CAPSTAN comment</b>	<b>Response to OMB</b>
<p>General response to CAPSTAN email regarding filing of Section 6, which was labeled "Section F" in the version released on September 15, 2023.</p>	<p>The IRS recently released a revised <a href="#">draft Form 6765 on June 21, 2024, with a corresponding press release</a>. The Service noted the revisions made will alleviate taxpayer burden, provide taxpayers with a consistent and predefined format, and improve the information received for tax administration.</p> <p>The revised Section G will be optional for all filers for tax year 2024 (processing year 2025). This will allow taxpayers time to transition to the Section G format. Section G will be effective for tax year 2025 (processing year 2026), subject to the guidelines noted above.</p>
<p>Whether the collection of information is necessary for the proper performance of the functions of the agency, including whether the information shall have practical utility;</p>	<p>The additional data provided will be used for enhanced data analytics to assist in selecting the highest risk issues and cases and use resources in the most effective and efficient manner possible. The respondent does not</p>

<ul style="list-style-type: none"> <li>Some revisions to Form 6765 facilitate proper performance and have practical utility. For example, Section E Lines 47-49, identifying reduced credit and controlled groups at the beginning, and options from which to select for Section F 50(e)-50(h).</li> </ul>	<p>specify which data points will not have practical utility but addresses many that they believe will have utility.</p>
<p>The accuracy of the agency's estimate of the burden of the collection of information;</p> <ul style="list-style-type: none"> <li>The time per respondent is estimated by agency to be 18 hours, 2 minutes; however, this is inaccurate (too low) and can be impacted by various factors (number of business components, size of taxpayer's business, methods of documentation/recordkeeping, etcetera). For example, if a taxpayer needs to utilize a statistical sample in accordance with Revenue Procedure 2011-42, and potentially 30 projects are sampled then it would take much more than 18 hours to analyze, qualify, and substantiate those projects (general rule of thumb is 2-4 hours per project, not inclusive of time needed to gather/compile taxpayer financial data such as employee wages, contractor expenses, and supply costs).</li> </ul>	<p>The time is based on the current form. Since we have provided small businesses the option of filing Section G, (labeled "Section F" in the version released on September 15, 2023), as well as limitations on the amount of data that is required to be provided as outlined in a recent press release on June 21, 2024 (see link in general comments). Also, see response to question 6 below. Furthermore, the details requested on the revised form should already be readily available by the taxpayer to compute the appropriate qualified research expenditures and thereby the research credit claimed.</p>
<p>Ways to enhance the quality, utility, and clarity of the information to be collected;</p> <ul style="list-style-type: none"> <li>The instructions provided in the proposed Form 6765 describing the new sections need more details/clarity. For example, whether Section E Line 46 needs to be derived from page 1 of the corporate tax return, or (if a statistical sample is used) whether Line 45 should include all projects in the sampling frame or just the number of projects sampled.</li> </ul>	<p>For Section E Line 46, Officer's Compensation, should be a subset of the amount reported on page 1 of the corporate tax return since only a portion of officer's compensation are qualified research expenditures. Furthermore, the instructions will define the term officer's compensation to ensure clarity. The instructions will explain that Section E Line 45, the number of business components should include all business components, or as the requestor refers to them as projects. Some additional</p>

	<p>items that will be clarified in the instructions include directions about controlled group reporting and how to report business component descriptive names.</p>
<p>Ways to minimize the burden of the collection of information on respondents, including through the use of automated collection techniques or other forms of information technology; and</p> <ul style="list-style-type: none"> <li>• Similar to Section F 50(e)-50(h), the use of options to select from could help to standardize the responses and minimize burden on the respondents while also minimizing the subjectivity and variety of responses received by the agency for review. Perhaps for Section F 50(d), instead of a narrative response (unclear as to character limit), similar to 50(e)-50(h) there could be a list to choose from could be provided in terms of the uncertainty (capability, method, etc.) or process of experimentation (iterative design, systematic trial and error, etc.). Also, perhaps a method to identify that a taxpayer used statistical sampling in the analysis (similar to how controlled groups, acquisitions/dispositions, change to QREs captured are identified).</li> <li>• For Section F 51-54, unclear how this would apply to statistical sampling situations since the total wage QREs of each project in the sample will not sum to the total wage QREs used in the credit calculation due to statistical sampling situations since the total wage QREs of each project in the sample will not sum to the total wage QREs used in the credit calculation due to statistical extrapolation.</li> </ul>	<p>Taxpayers may file the Section G, which was labeled “Section F” in the version released on September 15, 2023, using e-filing techniques. Additionally, see the recent June 21, 2024, press release which discusses reducing taxpayer burden.</p> <p>Section F 50(d) now asks for the taxpayer to “Describe the information sought to be discovered” and will be required for claims for refund (not original returns). The response field is expandable for more characters. We will consider additional revisions in the future that use drop down options for this field. Taxpayers using statistical sampling can provide data based on the limits outline in response to question 6 below. All other business components over the 80% or 50 business component maximum reporting will be tallied and reported as one line item to arrive at the total of qualified research expenditures. Detailed instructions will be provided.</p>
<p>Estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services to provide</p>	<p>The details requested on the revised form should already be readily available by the taxpayer to compute the appropriate</p>

<p>information</p> <ul style="list-style-type: none"> <li>• Many taxpayers/respondents seek out specialty service providers to assist with capturing the required information for analyzing and calculating the R&amp;D tax credit. Some of the proposed changes would not only increase the taxpayers'/respondents' cost to track/maintain data but also the costs of seeking services to capture this much needed business credit/incentive.</li> </ul>	<p>qualified research expenditures and thereby the research credit claimed. Additionally, to reduce any burden at the time of filing, the IRS has limited who will be completing Section G, which was labeled "Section F" in the version released on September 15, 2023. See response to question 6 below and the link in the general information section to the recent press release on June 21, 2024.</p>
<p>The agency also requested feedback on whether Section F should be optional for certain taxpayers, including those: with Research Expenditures less than a certain dollar amount at a controlled group level, with a Research Credit less than a certain dollar amount at a controlled group level, or that are a Qualified Small Business for the Payroll Tax Credit.</p> <ul style="list-style-type: none"> <li>• Given the complexity of the R&amp;D tax credit analysis, it seems reasonable that taxpayers/respondents with research expenditures less than \$5MM, research credits less than \$1MM, or QSBs for the Payroll Tax Credit should be exempt from the requirements of Section F. The justification for these thresholds is that the requested changes will be unduly burdensome for smaller taxpayers/respondents.</li> </ul>	<p>Section G, which was labeled "Section F" in the version of the form that IRS shared September 15, 2023, requests the Business Component Detail. IRS posted a recent <a href="#">press release on June 21, 2024</a>, which outlines the business component filing requirements for future years. The instructions will provide that Section G will be optional for:</p> <ul style="list-style-type: none"> <li>• Qualified Small Business (QSB) taxpayers, defined under section 41(h) (1) &amp; (2) who check the box to claim a reduced payroll tax credit; or</li> <li>• Taxpayers with total qualified research expenditures (QREs) equal to or less than \$1.5 million, determined at the control group level, and equal to or less than \$50 million of gross receipts, as determined under section 448(c)(3) (without regard to subparagraph (A) thereof), claiming a research credit on an original filed return.</li> </ul> <p>In addition, the IRS reduced the number of business components that must be reported on Section G. Taxpayers should report 80% of total QREs in descending order by the amount of total QREs per business component, but no more than 50 business components (with special instructions for taxpayers using the ASC 730 directive who can report ASC 730 QREs as a single line item on Section G).</p>

9. EXPLANATION OF DECISION TO PROVIDE ANY PAYMENT OR GIFT TO RESPONDENTS

No payment or gift has been provided to any respondents.

10. ASSURANCE OF CONFIDENTIALITY OF RESPONSES

Generally, tax returns and tax return information are confidential as required by 26 USC 6103.

11. JUSTIFICATION OF SENSITIVE QUESTIONS

A privacy impact assessment (PIA) has been conducted for information collected under this request as part of the "Business Master File (BMF)" system and a Privacy Act System of Records notice (SORN) has been issued for this system under IRS 24.046-Customer Account Data Engine Business Master File. The Internal Revenue Service PIAs can be found at <http://www.irs.gov/uac/Privacy-Impact-Assessments-PIA>.

Title 26 USC 6109 requires inclusion of identifying numbers in returns, statements, or other documents for securing proper identification of persons required to make such returns, statements, or documents and is the authority for social security numbers (SSNs) in IRS systems.

This is an attachment to the Federal tax return created by the respondent. The Privacy Act statement associated with this attachment is listed in the Federal tax return instructions.

12. ESTIMATED BURDEN OF INFORMATION COLLECTION

The time needed to complete and file the forms will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and the estimated burden for business filers is approved under 1545-0123, and are included in the estimates shown in the instructions for their individual or business income tax return. The estimated burden for all other taxpayers who file this form is shown below.

Authority	Description	# of Respondents	# Responses per Respondent	Annual Responses	Hours per Response	Total Burden
IRC 41	Form 6765	15,805	1	15,805	18.05 hrs.	285,281
Totals		15,805		15,805		285,281

13. ESTIMATED TOTAL ANNUAL COST BURDEN TO RESPONDENTS

To ensure more accuracy and consistency across its information collections, the IRS is currently in the process of revising the methodology it uses to estimate burden and costs. Once this methodology is complete, the IRS will update this information collection to reflect a more precise estimate of burden and costs.

14. ESTIMATED ANNUALIZED COST TO THE FEDERAL GOVERNMENT

The estimated annualized cost to the federal government is based on a model that considers the following three factors for each information product: aggregate labor costs for development, including annualized start -up expenses, operating and maintenance expenses, and distribution of the product that collects the information. These costs do not include any activities such as taxpayer assistance and enforcement.

The government computes cost using a multi-step process. First, the government creates a weighted factor for the level of effort to create each information collection product based on variables such as; complexity, number of pages, type of product and frequency of revision. Second, the total costs associated with developing the product such as labor cost, and operating expenses associated with the downstream impact such as support functions, are added together to obtain the aggregated total cost. Then, the aggregated total cost and factor are multiplied together to obtain the aggregated cost per product. Lastly, the aggregated cost per product is added to the cost of shipping and printing each product to IRS offices, National Distribution Center, libraries and other outlets. The result is the federal government estimated annualized cost per product.

The federal government estimated annualized cost is as follows:

<u>Product</u>	<u>Aggregate Cost per Product (factor applied)</u>		<u>Printing and Distribution</u>		<u>Government Cost Estimate per Product</u>
Form 6765	\$19,285	+	0	=	\$19,285
Instructions 6765	\$6,268	+	0	=	\$6,268
Grand Total	\$25,553	+	0	=	\$25,553
Table costs are based on 2023 actuals obtained from IRS Chief Financial Office and Media and Publications					

15. REASONS FOR CHANGE IN BURDEN

There is no change in the paperwork burden previously approved by OMB. The IRS is making this submission to renew the OMB approval.

16. PLANS FOR TABULATION, STATISTICAL ANALYSIS AND PUBLICATION

There are no plans for tabulation, statistical analysis, and publication.

17. REASONS WHY DISPLAYING THE OMB EXPIRATION DATE IS INAPPROPRIATE

The IRS believes that displaying the OMB expiration date is inappropriate because it could cause confusion by leading taxpayers to believe that the form expires as of the expiration date. Taxpayers are not likely to be aware that the IRS intends to request renewal of the OMB approval and obtain a new expiration date before the old one expires.

18. EXCEPTIONS TO THE CERTIFICATION STATEMENT

There are no exceptions to the certification statement for this collection.