

Qualified Small Business Payroll Tax Credit Form 8974

Form **8974:** **Qualified Small Business Payroll Tax Credit for Increasing Research Activities** 950817

(Rev. December 2017) Department of the Treasury — Internal Revenue Service OMB No. 1545-0029

Employer identification number (EIN)

Name (not your trade name)

The credit from Part 2, line 12, will be reported on (check only one box):
☐ Form 941, 941-PR, or 941-SS
☐ Form 943 or 943-PR
☐ Form 944 or 944(SP)
Calendar year You must select a quarter if you file Form 941, 941-PR, or 941-SS.

Report for this quarter . . .

Check only one box.
☐ 1: January, February, March
☐ 2: April, May, June
☐ 3: July, August, September
☐ 4: October, November, December

Part 1: Tell us about your income tax return.

	(a) Ending date of income tax period	(b) Income tax return filed that included Form 6765	(c) Date income tax return was filed	(d) EIN used on Form 6765	(e) Amount from Form 6765, line 44, or if applicable, the amount that was allocated to your EIN	(f) Amount of credit from column (e) taken on a previous period(s)	(g) Remaining credit (subtract column (f) from column (e))
1	/ /		/ /		*	*	*
2	/ /		/ /		*	*	*
3	/ /		/ /		*	*	*
4	/ /		/ /		*	*	*
5	/ /		/ /		*	*	*
6	Add lines 1(g) through 5(g) and enter the total here						*

Part 2: Determine the credit that you can use this period.

7 Enter the amount from Part 1, line 6(g) 7

8 Enter the amount from Form 941 (941-PR or 941-SS), line 5a, Column 2; Form 943 (943-PR), line 3; or Form 944 (944(SP)), line 4a, Column 2 8

9 Enter the amount from Form 941 (941-PR or 941-SS), line 5b, Column 2; or Form 944 (944(SP)), line 4b, Column 2 9

10 Add lines 8 and 9 10

11 Multiply line 10 by 50% (0.50). Check this box ☐ if you're a third-party payer of sick pay or check this box ☐ if you received a Section 3121(g) Notice and Demand. See the instructions before completing line 11 11

12 **Credit.** Enter the smaller of line 7 or line 11. Also enter this amount on Form 941 (941-PR or 941-SS), line 11; Form 943 (943-PR), line 12; or Form 944 (944(SP)), line 8 12

For Paperwork Reduction Act Notice, see the separate instructions. www.irs.gov/Form8974 Cat. No. 37737C Form **8974** (Rev. 12-2017)

Qualified Small Business Payroll Tax Credit Form 8974 is a critical tool for small businesses seeking to leverage tax credits to offset their payroll tax liabilities. This program is particularly beneficial for companies that have retained employees during challenging economic times, allowing them to receive a refund on their payroll taxes. Understanding the intricacies of this form and the associated credit can significantly enhance a business's financial strategy. This article will delve into what Form 8974 is, its eligibility requirements, how to fill it out, and its impact on small businesses.

What is Form 8974?

Form 8974, titled "Qualified Small Business Payroll Tax Credit for Increasing Research Activities," is used by eligible small businesses to claim the Payroll Tax Credit. This credit was established under the Protecting Americans from Tax Hikes (PATH) Act of 2015 and is designed to incentivize small businesses to increase their research activities by providing them with a refundable tax credit.

Purpose of Form 8974

The primary purpose of Form 8974 is to allow small businesses that qualify to receive a credit against their payroll taxes. This can often result in a substantial tax refund, which can be critical for cash flow, especially for startups and small enterprises that are investing in growth or innovation.

Eligibility Requirements

To utilize Form 8974, a business must meet specific eligibility criteria. Here are the key requirements:

1. Qualified Small Business Definition:

- A business must have gross receipts of less than \$5 million for the taxable year.
- It must also be a corporation, partnership, or sole proprietorship that is not publicly traded.

2. Research Activities:

- The business must engage in qualified research activities as defined by the Internal Revenue Service (IRS). This typically includes developing or improving products, processes, or software.

3. Payroll Tax Liability:

- The company must have payroll tax liabilities against which the credit can be applied. This includes Social Security and Medicare taxes.

4. Claiming the Credit:

- The credit can only be claimed for up to five years after the research expenditures are incurred.

How to Fill Out Form 8974

Filling out Form 8974 requires careful attention to detail to ensure all information is accurate and complete. Below is a step-by-step guide to help

small business owners navigate this process.

Step 1: Gather Necessary Information

Before filling out the form, gather all relevant documents, including:

- Company financial statements
- Payroll records
- Documentation of qualified research activities
- Previous tax returns

Step 2: Complete the Form

The form consists of several sections:

1. Part I: Qualified Small Business Payroll Tax Credit:
 - Calculate the payroll tax credit based on qualified research expenditures.
 - Enter the amount of the credit on line 1.
2. Part II: Credit Limitation:
 - Determine the business's payroll tax liability for the year.
 - Enter this amount on line 4.
3. Part III: Refundable Credit Calculation:
 - If the credit exceeds the payroll tax liability, the difference can be refunded.
 - Complete this section to determine the refundable portion of the credit.
4. Sign and Date:
 - Ensure the form is signed and dated by an authorized individual.

Step 3: Submit the Form

Once completed, Form 8974 must be submitted along with the business's payroll tax return. Typically, this is done through Form 941, the Employer's Quarterly Federal Tax Return.

Impact of Form 8974 on Small Businesses

Utilizing Form 8974 can have a significant impact on small businesses, particularly those involved in research and development. Here are some of the benefits:

Financial Relief

1. Tax Refunds:

- Businesses can receive cash refunds that can be reinvested into operations, aiding in growth and development.

2. Offsetting Payroll Taxes:

- The credit can substantially reduce payroll tax liabilities, allowing for more capital to be allocated to employee wages or benefits.

Encouraging Innovation

1. Increased Research Activities:

- The tax credit incentivizes small businesses to invest in research and development, fostering innovation and competitiveness.

2. Job Retention and Creation:

- By providing financial relief, businesses are better positioned to retain existing employees and create new jobs.

Common Mistakes to Avoid

When filling out Form 8974, small business owners should be mindful of common pitfalls:

1. Inaccurate Calculations:

- Ensure all calculations related to payroll taxes and research expenditures are correct to avoid delays in processing.

2. Incomplete Documentation:

- Failing to provide adequate documentation of research activities can lead to disqualification from the credit.

3. Missing Deadlines:

- Be aware of filing deadlines to ensure that the form is submitted on time, preventing loss of potential credits.

Conclusion

Qualified Small Business Payroll Tax Credit Form 8974 serves as a vital resource for small businesses looking to mitigate their payroll tax burdens while promoting research and development activities. By understanding the form's requirements and the process for claiming the credit, business owners can take advantage of this opportunity to enhance their financial stability

and foster innovation.

As the landscape of taxation and business incentives continues to evolve, remaining informed about available credits and utilizing resources like Form 8974 can provide a competitive edge. Engaging with a tax professional is also advisable to navigate the complexities of the tax code and ensure compliance, maximizing the benefits available under this program. Ultimately, Form 8974 not only benefits individual businesses but also contributes to the broader economic landscape by encouraging growth and innovation among small enterprises.

Frequently Asked Questions

What is Form 8974 used for?

Form 8974 is used to claim the qualified small business payroll tax credit, allowing eligible small businesses to offset their payroll tax liabilities.

Who qualifies for the payroll tax credit on Form 8974?

To qualify, a business must have fewer than 500 employees and must have retained employees during the COVID-19 pandemic, among other criteria.

How do I fill out Form 8974?

You fill out Form 8974 by providing your business information, calculating the qualified credit amount, and detailing the payroll taxes you wish to offset.

What are the deadlines for submitting Form 8974?

Form 8974 should be submitted along with your payroll tax return, typically due quarterly or annually depending on your filing status.

Can I amend my Form 8974 after submission?

Yes, you can amend your Form 8974 by filing an amended payroll tax return if you discover discrepancies or if your eligibility changes.

What documents do I need to support my Form 8974 claim?

Supporting documents may include payroll records, tax returns, and any documentation proving employee retention during the qualifying periods.

Where can I find more information about Form 8974?

More information can be found on the IRS website, including detailed instructions for completing Form 8974 and updates on eligibility criteria.

Find other PDF article:

<https://soc.up.edu.ph/42-scope/pdf?dataid=kZY60-5100&title=mythbusters-worksheet-answers-key.pdf>

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