

Instructions for Form 8974



Department of the Treasury
Internal Revenue Service

(Rev. December 2017)

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.

What's New

Credit added to Forms 943, 943-PR, 944, and 944(SP). The qualified small business payroll tax credit for increasing research activities can be claimed on the 2017 Form 943, Employer's Annual Federal Tax Return for Agricultural Employees; 2017 Form 943-PR, Planilla para la Declaración Anual de la Contribución Federal del Patrono de Empleados Agrícolas; 2017 Form 944, Employer's ANNUAL Federal Tax Return; and 2017 Form 944(SP), Declaración Federal ANUAL de Impuestos del Patrono o Empleador.

Form 8974, Part 1, redesigned. Part 1 of Form 8974 has been redesigned to allow reporting of income tax return information for up to 5 years. Part 1 also tracks the amount of credit that has been used or is remaining for use as a carryforward credit.

Notice 2017-23. Notice 2017-23, 2017-16 I.R.B. 1100, available at IRS.gov/irb/2017-16_IRB/ar07.html, provides interim guidance on the qualified small business payroll tax credit for increasing research activities.

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; Form 943-PR; Form 944; or Form 944(SP). This payroll tax credit is a credit against the employer portion of social security tax on the wages of your employees.

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 election is made on Form 6765, Credit for Increasing Research Activities. 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 a Form 941, 943, or 944 unless you make the election on Form 6765 and then file a Form 8974 attached to Form 941, 943, or 944.

Aggregate Form 941

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. Additionally, you must attach a Form 8974 for each client that is taking the qualified small business payroll tax credit for increasing research activities. See the instructions for [Line 8](#) and [Line 9](#), later, for more information.

Aggregate Form 943

If you're a Section 3504 agent or a CPEO, you must complete Schedule R (Form 943), Allocation Schedule for Aggregate Form 943 Filers, when filing an aggregate Form 943. Additionally, you must attach a Form 8974 for each client that is taking the qualified small business payroll tax credit for increasing research activities. See the instructions for [Line 8](#), later, for more information.

Correcting Form 8974

Form 8974 filed with Form 941. 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, with a corrected Form 8974. For more information, see the Instructions for Form 941-X.

Form 8974 filed with Form 943 or 944. If you discover an error on a previously filed Form 8974, make the correction by filing 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, with a corrected Form 8974. For more information, see the Instructions for Form 943-X or the Instructions for Form 944-X.

When Must You File?

If You File Form 941...

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 are required to claim the qualified small business payroll tax credit for increasing research activities for the amount elected as a research payroll tax credit on Form 6765. 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 2017 income tax return based on a calendar year (January 1–December 31) on March 15, 2018, the 2018 second quarter (April 1, 2018–June 30, 2018) Form 941, which is filed by July 31, 2018, is the first quarter that you can take the qualified small business payroll tax credit for increasing research activities.

The payroll tax credit must generally be elected on an original income tax return that is timely filed (including extensions). However, Notice 2017-23 provides a limited exception to that rule, allowing a qualified small business that timely files its income tax return for a tax year beginning after December 31, 2015, but fails to make the payroll tax credit election, to make the election on an amended income tax return filed on or before December 31, 2017. The Form 6765 filed with that amended income tax return must meet certain procedural requirements provided in section 4.02 of Notice 2017-23. If the payroll tax credit is elected on an amended income tax return filed under Notice 2017-23, the payroll tax credit is allowed against the employer share of social security tax for the quarter that begins after the amended income tax return is filed. The payroll tax credit can't be applied to an earlier quarter.

If You File Form 943 or 944...

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 are required to claim the qualified small business payroll tax credit for increasing research activities for the amount elected as a research payroll tax credit on Form 6765. 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 2016 income tax return based on a calendar year (January 1–December 31) on March 15, 2017, the 2017 second quarter (April 1, 2017–June 30, 2017) is the first quarter that you can take the qualified small business payroll tax credit for increasing research activities. Therefore, the 2017 Form 943 or 944, which is filed by

January 31, 2018, 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.



If you are 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.

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. 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 2017 income tax return was for a calendar year, enter "12/31/2017." If your income tax return was for a fiscal year that ended on June 30, 2017, enter "06/30/2017."

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 1120S.

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, "03/15/2018").

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 section 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 section 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.

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), 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, 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 because of the limit to the employer social security tax on wages for that quarter (the next quarter), then you can carry forward any unused amount to the quarter after the next quarter. For subsequent quarters, if the qualified small business payroll tax credit for increasing research activities on line 6, column (g), can't be fully used in the quarter, you can carry forward any unused amount to the following quarter.

Example. You elected to take \$100,000 as a qualified small business payroll tax credit for increasing research activities when you filed your 2017 income tax return on March 15, 2018. On the Form 8974 that you attach to your second quarter 2018 Form 941, you enter \$100,000 in column (e), leave column (f) blank because the second quarter of 2018 is the first time you're using the elected amount from your 2017 income tax return, and enter \$100,000 in column (g). You complete lines 7–12 and learn that you can only use \$75,000 of the credit for the second quarter of 2018. You have a \$25,000 carryforward to the third quarter of 2018.

On the Form 8974 that you attach to your third quarter 2018 Form 941, you will enter on line 1, columns (a)–(d) the same information (your 2017 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 2018 Form 941). You will enter \$100,000 in column (e) (same as you did for the second quarter of 2018) but you now 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 will 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.

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. 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.

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. 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 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. 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 below.

Third-Party Payers of Sick Pay



If you are 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 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. Because the amount entered on line 8 included social security tax for your clients' employees, you must make an adjustment to the amount reported on 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 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 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 line 5a) 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 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 still must 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 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 (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 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 \$6,200 on line 8 and \$12,400 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 12

Enter the smaller of line 7 or line 11. Also enter this amount on Form 941, line 11; Form 943, line 12; or Form 944, line 8. If line 12 is less than line 7, the remaining amount can be used on a Form 8974 for the next quarter (Form 941) or year (Form 943 or 944).

Paperwork Reduction Act Notice. We ask for the information on Form 8974 to carry out the Internal Revenue laws of the United States. You are required to

give us the information. We need it to ensure that you are 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.
