



We'll get you there.

CPAs | CONSULTANTS | WEALTH ADVISORS

Annual R&D Tax Credit Update 2026

February 5, 2026



The information herein has been provided by CliftonLarsonAllen LLP for general information purposes only. The presentation and related materials, if any, do not implicate any client, advisory, fiduciary, or professional relationship between you and CliftonLarsonAllen LLP and neither CliftonLarsonAllen LLP nor any other person or entity is, in connection with the presentation and/or materials, engaged in rendering auditing, accounting, tax, legal, medical, investment, advisory, consulting, or any other professional service or advice. Neither the presentation nor the materials, if any, should be considered a substitute for your independent investigation and your sound technical business judgment. You or your entity, if applicable, should consult with a professional advisor familiar with your particular factual situation for advice or service concerning any specific matters.

CliftonLarsonAllen LLP is not licensed to practice law, nor does it practice law. The presentation and materials, if any, are for general guidance purposes and not a substitute for compliance obligations. The presentation and/or materials may not be applicable to, or suitable for, your specific circumstances or needs, and may require consultation with counsel, consultants, or advisors if any action is to be contemplated. You should contact your CliftonLarsonAllen LLP or other professional prior to taking any action based upon the information in the presentation or materials provided. CliftonLarsonAllen LLP assumes no obligation to inform you of any changes in laws or other factors that could affect the information contained herein.

Session CPE Requirements

- You need to attend 50 minutes to receive the full 1 CPE credit.
- There will be 4 polling questions throughout the presentation. You must respond to a minimum of 3 to receive the full 1 CPE credit.
- ****Both requirements must be met to receive CPE credit.****



Learning Objectives

- Recognize what activities and expenses qualify under the R&D credit rules.
- Describe how the credit can be applied against income and payroll taxes.
- Discuss how recent judicial and legislative developments impact the credit.
- Recall the options to release any unamortized domestic 174 costs and identify the future treatment options.



Today's Speakers



Julie Helms
Technical Director
julie.helms@CLAnet.com



Aaron Willis
Manager
aaron.willis@CLAnet.com



Eric Zeitler
Manager
eric.zeitler@CLAnet.com

Agenda

- R&D tax credit basics
- R&D tax credit updates
 - Statutory and procedural changes – Form 6765
 - Recent court cases and exam trends
 - State credit updates
- Sec. 174 R&E capitalization updates
- Sec. 174 planning opportunities





Polling Question #1

How favorable are current U.S. economic conditions for your organization?

- 5 = Very favorable
- 4 = Favorable
- 3 = Neutral
- 2 = Unfavorable
- 1 = Very unfavorable



R&D Tax Credit Basics

©2026 CliftonLarsonAllen LLP. CLA (CliftonLarsonAllen LLP) is an independent network member of CLA Global. See CLAGlobal.com/disclaimer. Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.



Overview

Dollar-for-dollar reduction in taxes due

Net federal benefit is typically 7% to 10% of all qualifying costs

Credit can be carried back one year or forward 20 years

Federal payroll tax offset

State credits (refundable in some states)

Documentation is critical to support the credit upon potential audit



Qualified Research: Four-Part Test

Permitted purpose

Activities must relate to the **function, performance, reliability, or quality** of a business component

A **business component** can be a product, process, technique, formula or software

Technological in nature

Activities must rely on principles of **hard science**, such as:

- Biological, physical sciences
- Engineering
- Computer science/data science

Elimination of technical uncertainty

Activities must be intended to **eliminate technical uncertainty** relating to **capability, methodology, or best design** of the business component

Process of experimentation

Activities must constitute **elements of a process of experimentation**, which may involve:

- Developing one or more hypotheses/alternatives
- Testing, analyzing, and refining the hypotheses/alternatives



Qualified Research Expenses (QREs)

Four expense categories are used to compute the credit:



Wages

Performing, supporting,
or supervising
qualified research



Contract research

Amounts paid to
contractors/consultants
for R&D
(subject to 35% reduction)



Leased computing

Cloud computing
expenses such as AWS,
Azure, etc.



Supplies

Materials/supplies,
prototypes, tooling costs



R&D Credit Updates



Statutory Changes

Section 280C(c)

- Text of Sec. 280C(c) changed due to Sec. 174 change
- Either reduce the deductible amount of 174A expenses by the amount of the credit or reduce the credit by making the 280C(c) election

Section 174A

- Capitalization of 174A costs (domestic) is no longer required
- Offshore 174 costs are still required to be capitalized and amortized over a 15-year period



Amended Returns – Refund Claims

- Refund can be claimed for up to three years (until Statute of Limitations expires)
- Refund claims require reporting of additional information
 - Identify all the business components to which the Section 41 research credit claim relates for that year,
 - Identify all research activities performed for each business component, and
 - Provide the total ***qualified employee wage expenses***, ***total qualified supply expenses***, and ***total qualified contract research expenses*** for the claim year.



Form 6765 Changes

- Certain modifications applicable for 2025 tax years, Schedule G requirement deferred another year
- Requires significantly more info – instructions are still vague with questions outstanding
- **New Section E:**

Section E—Other Information. See instructions.

37	Enter the number of business components generating the QREs on line 5 or line 20	37	
38	Enter the amount of officers' wages included on line 42	38	
39	Did you acquire or dispose of any major portion of a trade or business in the tax year? <input type="checkbox"/> Yes <input type="checkbox"/> No		
40	Did you include any new categories of expenses as current year QREs? <input type="checkbox"/> Yes <input type="checkbox"/> No		
41	Did you determine any of the QREs on line 5 or line 20 following the ASC 730 Directive? <input type="checkbox"/> Yes <input type="checkbox"/> No If "Yes," enter the amount from Appendix C Line 19 (you may attach your Appendices A, B, C, and D here) This ASC 730 Directive only applies to taxpayers with assets equal to or greater than \$10,000,000 who follow U.S. GAAP to prepare their Certified Audited Financial Statements showing the amount of currently expensed Financial Statement R&D. See instructions.	41	



Form 6765 Changes

- ***New Section G – deferred further to 2026***
- 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
- Special instructions for taxpayers using the ASC 730 directive who can report ASC 730 QREs as a single line item on Section G)

Form 6765 (Rev. 12-2024)

Page 3

Section G – Business Component Information. Complete lines 49(a) through 49(f) for each business component you are required to report. See instructions. Attach additional sheets if necessary to capture all business components.

BC	49(a) EIN of the controlled group member conducting the research activities on this business component	49(b) Controlled group member's principal business activity code	49(c) Business component's name or unique alphanumeric identifier (see instructions)	49(d) Business component type (select one from available options)
1				1. Product
2				2. Process
3	Controlled Group Info (if applicable)		Business Component Names	3. All Others
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
BC	49(e) (if applicable, select from the available options)	49(f) Describe the information sought to be discovered. Use the space provided.		
1	a. IUS	High level description		
2	b. DFS			
3	c. Excepted from IUS treatment			
4	d. Non-IUS			
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				

Form 6765 (Rev. 12-2024)



Form 6765 Changes

- Additional questions outstanding on presentation – awaiting updated instructions in early 2026
- Post 2026, Schedule G is anticipated to continue being optional for:
 - Qualified small businesses claiming the payroll tax credit, or
 - Taxpayers (i) with total QREs of \$1.5 million or less (determined at the control group level), (ii) with \$50 million or less of gross receipts, and (iii) claiming the credit on an originally filed return

Form 6765 (Rev. 12-2024)

Page 4

Section G—Business Component Information (continued). Complete lines 50 through 56 for each business component. If you have more than fifteen business components, see instructions.

BC	50 Direct research wages for qualified services	51 Direct supervision wages for qualified services	52 Direct support wages for qualified services	53 Total qualified wages (add line 50, line 51, and line 52)
1				
2				
3				
4				
5				
6				
Total				
BC	54 Cost of supplies	55 Rental or lease cost of computers	56 Applicable amount of contract research expenses (see instructions for reporting basic research payments)	
1				
2				
3				
4				
5				
Supplies	Leased	Contract		
Cost	Computing	Labor		



Polling Question #2

Do you feel comfortable that
your current documentation
will allow for completing
Schedule G?

- Yes
- No
- Maybe
- N/A





Case Law Trends



IRS Audit Landscape

- Revolving door with IRS Commissioners and Chief Counsel
- 7 of 9 IRS top official roles are either vacant or acting
- Layoffs, hiring freeze
- LB&I down approx. 25%
- Appeals down approx. 27%
- Impact to R&D audits:
 - Exam-level resolutions (many with no change)
 - Fast-track settlements
 - MITRE contract terminated



R&D Litigation Trend



Largely taxpayer losses



Many litigated by one boutique firm



Many are small dollar amounts (less than \$1 million in credit)



Bad facts/bad representation =
BAD LAW

Case Update: Meyer, Borgman & Johnson, Inc. v. Commissioner

- Structural engineering firm
- IRS denied the credit claim, Tax Court affirmed the decision in 2022, and the 8th Circuit agreed with Tax Court in May of 2024
- MBJ argues that the Tax Court erred because:
 - MBJ's right to payment was contingent on the success of its research, and
 - MBJ's contracts had inspection, acceptance, and quality assurance provisions
- The court pointed out that "There is a difference between 'successful performance' - meeting detailed, barometers of success - and 'proper performance' - providing deliverables pursuant to a general professional standard of care and promising work free from negligence, error, or defects."
- MBJ's contracts lack the express terms that courts have identified as important to establish payment was contingent on the success of the research, such as:
 - Specific descriptions of the research requirements
 - Provisions requiring it to refund payments already received if it failed to meet specific benchmarks



Meyer, Borgman & Johnson, Inc. v. Commissioner – Takeaway



What constitutes a funded project is still an area of controversy



Ensure contracts are structured to mitigate risk of funding issues

Case Update: Kyocera AVX Components Corp. v. U.S.

- Case granting IRS Motion for partial summary judgement
- Kyocera seeking an R&D refund based on the difference between its original claim and newly filed claim
- Government argued taxpayer failed to substantiate its claim with sufficient evidence because the accounting firm's study is “wholly devoid of sufficient expense records” and “founded on multiple layers of hearsay.”
- The accounting firm interviewed 36 employees to estimate the time spent by 1,200 workers on R&D projects. The interviews took place more than a year after Kyocera's 2018 tax year had ended



Kyocera AVX Components Corp., Cont'd

- IRS' arguments:

Kyocera lacks substantiating documents; it cannot meet the process of experimentation test.

- Did not track employees' time on particular projects included in the study, it is unable to prove that the included employees satisfied the 80% thresholds.
- The accounting firm's study included numerous employees whose job duties did not constitute elements of a process of experimentation, and Kyocera has offered no evidence to the contrary.

Kyocera cannot substantiate the amount of its claimed section 41 credit.

- Kyocera did not produce any documents beyond the accounting firm's study to substantiate its section 41 credit; IRS requested in-depth expense information about its claimed expenses for wages, supplies, and contract research.
- The accounting firm failed to retain key documents to substantiate even the amounts in its study. Its production in response to a subpoena from the United States consisted of various internal spreadsheets that it used to arrive at the conclusions in the study, **but none of the underlying documents used to create the spreadsheets.**

The Court should not permit Kyocera to resort to the Cohan rule as a cure for its recordkeeping failure.

- Kyocera failed to retain adequate documentation to support an estimate, and accounting firm's study that began well after the fact did not cure that failure.



Kyocera AVX Components Corp. – Takeaways



Contemporaneous documentation



Examples to be retained



Interviews are not solely sufficient

- “Pave the road with documentation and fill the potholes with interviews.”

Case Update: Park-Ohio Holdings Corp. v. U.S.

Rejection of taxpayer's amended R&D claim

Original return credit claim for \$395K; amended return credit claim over \$2 million

Taxpayer submitted 10+ pages of information regarding research activities with amended return

Taxpayer received a 45-day letter requesting information per the CCM; 28-page supplement was submitted

IRS again refused to consider the claim

Taxpayer filed suit in federal district court (ND Ohio) claiming IRS policy is contrary to established law and violates the APA

IRS and taxpayer have agreed to an exam-style review by IRS





State Updates



State Credit Updates

Arizona

- Now provides an alternative simplified credit
- Refundable credit is now a random selection process as opposed to first come, first served

Michigan

- Enacted R&D credit effective Jan. 1, 2025
- Businesses with fewer than 250 employees claim 3% of QRE + 15% of amount exceeding base not to exceed \$2M/year
- Businesses with 250 or more employees claim 3% of QRE + 10% of amount exceeding base not to exceed \$250K/year
- Total credits can't exceed \$100M – if so prorate
- Application must be submitted by April 1, 2026 for 2025 filings



State Credit Updates

California

- Now provides an alternative simplified credit – tax years beginning on or after Jan 1, 2025
- Discontinuation of the alternative incremental credit
- Still awaiting updated forms



State Credit Updates

Texas

- Eliminates the sales and use tax exemption for R&D equipment
- Consolidates incentives into a single, performance-based franchise tax credit
- Eligible expenses more closely match the federal credit qualifications
- Increases the base credit rate to 8.722% (from 5%); 10.903% for research with Texas higher education institutions
- For businesses without a three-year R&D history, standard rates are 4.361% (base) and 5.451% (enhanced)
- Credit capped at 50% of franchise tax due; unused credits can be carried forward for up to 20 tax periods
- Certain non-taxpaying entities may be eligible for a refund



State Credit Updates

Minnesota

- **House File 9 (HF 9)** makes Minnesota's Credit for Increasing Research Activities partially refundable
- **Refundability rates:**
 - 19.2% for tax years starting after December 31, 2024, and before January 1, 2026
 - 25% for tax years starting after December 31, 2025, and before January 1, 2028
- **Annual cap:** There's a statewide cumulative refund limit of \$25 million per year beginning December 2027 and each subsequent year thereafter. The Department of Revenue may adjust future rates if the refundability amount is projected to exceed \$25 million.
- The underlying credit calculation remains the same: 10% on the first \$2 million of qualifying expenses, 4% above that, with a 15-year carryforward. Research must be conducted in Minnesota.



Polling Question #3

How are you planning on
treating your unamortized
174A costs?

- Deducting in full in first year
- Deducting ratably
- Continuing to capitalize
- Unsure



Section 174 Updates



OBBBA – What Changed from TCJA?

Domestic R&E expenditures

Section 174A

Returns to deductible

“Retroactive” treatment available

Foreign R&E expenditures

No change

Continue to capitalize

Net 280C(c)

Default is to reduce Section 174A by amount of credit

Option to elect reduced credit

AMT (59(e)) back again

Passive owners

Pass-through entities



Domestic 174A Expenditures Options (2025+)

Expense

- Immediate deduction
- Method change

Continue to capitalize over a period of not less than 60 months

- Method change
- Amortization starts when taxpayer first realizes benefit

Continue to capitalize but over a 10-year period

- Election not a method change



174A – OBBBA Retroactive Options – Rev. Proc. 2025 - 28

1. Small business taxpayer (448(c))

- Elect to move effective date of 174A modifications to 12/31/21
- Amend all applicable returns to remove 174A capitalization
- Apply 280C(c) R&D provisions

2. All taxpayers

- Election to stop capitalizing 174A beginning for tax years on or after December 31, 2024
- Election to expense unamortized 174A expenses
 - In 2025, or
 - Ratably in 2025 and 2026*



First Option: Small Business Taxpayers – Election

For tax years
2022, 2023, and
2024

Taxpayer must
file amended
return for each
taxable
year impacted

Average annual
gross receipts
under \$31M

Election

- Caution - AAR

- 448(c) rules (aggregation, all revenue items, no tax shelters, etc.)
- Average annual gross receipts for first taxable year beginning after 12/31/2024

- Must be made by the earlier of one year from date of enactment (July 6, 2026) or expiration of statute of limitations



First Option SBT – Keep in Mind

280C(c) –

- Default is a reduction in 174A expenditures
- Have ability to make a late 280C(c) election
- Making an election shall be treated as timely made on amended returns if made within 1 year of enactment – July 6, 2026

Reducing taxable income can impact other areas of the tax return

- NOLs
- SALT
- 199A, 163(j), 460, etc.
- ITS

Amended return is a refund claim



Second Option: All Taxpayers (Likely Preferred)

**Unamortized
174A expenses**
2022-2024

Two expensing options

- All in 2025, or
- Split ratably in 2025 and 2026
(first and second taxable years)

**Helps ease potential
issues with 1st option
(SBT- amended returns)**

More cost effective

- Not amending entity and shareholder returns
- Preserve full R&D credit

**Potential for faster
refunds/adjust estimated
payments**



Procedural Considerations – Summary

Decision on 2022-2024 unamortized amount

Decision on 2025 forward

**Going back in time?
Amended returns/election statements**

If amending, have until the EARLIER of July 6, 2026 or statute of limitation expiration

2025 forward – statement in lieu of Form 3115

Rev. Proc. 2025-28



Polling Question #4

I would like someone from CLA to contact me to discuss the following:

- R&D credit qualification
- R&D documentation
- 174A planning
- Not at this time



Q&A



Thank you!

Julie Helms, Technical Director

julie.helms@CLAnet.com

Aaron Willis, Manager

aaron.willis@CLAnet.com

Eric Zeitler, Manager

eric.zeitler@CLAnet.com

Research and Development (R&D) Tax Credit: CLA (CliftonLarsonAllen)



CLAnet.com



CPAs | CONSULTANTS | WEALTH ADVISORS

©2026 CliftonLarsonAllen LLP. CLA (CliftonLarsonAllen LLP) is an independent network member of CLA Global. See CLAglobal.com/disclaimer. Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.