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# Top Credits and Incentives You May Be Missing in 2026

March 24, 2026



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# *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*

- Identify opportunities for R&D tax credits
- Discuss energy-related incentives and how recent legislation impacts clean energy projects
- Recognize Work Opportunity Tax Credit (WOTC) opportunities and benefits
- Identify state and local credits and incentives that can support expansion or investment



# Polling Question

How familiar are you with today's topics?

- Very familiar
- Somewhat familiar
- Slightly familiar
- Not at all familiar





# R&D Tax Credit Basics



# 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

# What's New

## Section 174 R&D expensing fix under OBBBA

- Know your options
- Modeling is key

## Changes to Form 6765

- More detail required; plan accordingly

## Procedural issues

- IRS operational challenges
- Refund claims are extremely slow
- Documentation remains key in audits; make sure your R&D claim is well supported

## State credits

- Texas overhaul
- California adopts new credit computation method



# Polling Question

Does your organization currently claim an R&D tax credit?

- Yes, we claim one every year
- No, we've never claimed one
- Not yet – we plan to





# Clean Energy Tax Credits



# Inflation Reduction Act Snapshot



- Created and modified several renewable energy credits as well as financing programs.
- Created new monetization options for tax-exempt and taxable entities.
- Section 6417 provides an elective pay option (i.e., cash refund) for tax-exempt entities.
- Section 6418 allows the transfer of credits between for-profit entities.



# Refundable/Transferable Credits

§30C Alternative fuel vehicle refueling property credit

§45 Electricity produced from certain renewable resources, etc.

§45Q Credit for carbon oxide sequestration

§45U Zero-emission nuclear power production credit

§45V Credit for production of clean hydrogen

§45W Credit for qualified commercial clean vehicles (elective pay only)

§45X Advanced manufacturing production credit

§45Y Clean electricity production credit

§45Z Clean fuel production credit

§48 Energy credit

§48C Advanced energy project credit

§48E Clean electricity investment credit



# Tax Credit Transferability at a Glance



IRA (Sec. 6418) permits the sale of several different types of energy credits



Proceeds to seller are tax-free



Tax savings (i.e., discount) to buyer are tax-free



Purchasers can time the transactions around estimated tax payments, extensions, or tax return due dates to enhance IRR



Consider potential carryback opportunities (enhanced 3-year carryback period) under Sec. 39



Robust transfer market has developed since IRA was enacted



# *OBBBA:* Tax Credit Market Remains Alive and Well

- OBBBA passed with **no** direct repeal of Sections 6417 or 6418
- Section 45Z clean fuel production credits anticipated to be widely available in the market
- Section 45X advanced manufacturing credits becoming favorite among buyers



# OBBBA Changes Impacting Transferable Credits

Wind and solar  
ITC (48E) and  
PTC (45Y)

PIS by 12/31/2027 if  
construction starts  
after 7/4/2026; new  
BOC guidance  
issued.

Section 30C EV  
infrastructure  
credit

Repealed for  
property PIS after  
6/30/2026.

Section 45V  
clean hydrogen  
credit

Accelerates  
expiration;  
construction must  
begin prior to  
1/1/2028.

Section 45X  
manufacturing  
credit

Added metallurgical  
coal to list of critical  
minerals.  
Terminates credit for  
wind components as  
of 12/31/2027.

Section 45Z  
manufacturing  
credit

Extends credit to  
12/31/2029.  
Some restrictions in  
connection with  
biofuel sold after  
12/31/2025.



# Polling Question

Approximately, how many new hires does your organization make in a typical year?

- 0-10 hires
- 11-50 hires
- 51-250 hires
- 250+ hires





# Work Opportunity Tax Credit (WOTC)



# Work Opportunity Tax Credit (WOTC)



The tax credit allows employers to reduce their federal tax liability by up to \$9,600 per new hire. For-profit businesses of any size qualify. 501(c) non-profits qualify for the veteran target groups only.



The tax credit applies to temporary, seasonal, part-time and full-time workers. The tax credit is available for new hires with job start dates through December 31, 2025.



WOTC is a prospective benefit that must be addressed at the start date for new employees. The employer has 28 days to submit paperwork related to qualifying employees to the state agency for verification.



The WOTC applies only to new employees who have never worked for the hiring employer at any other time.



# How WOTC Impacts Tax Liability

Taxable employers claim the WOTC as a general business credit on Form 3800 against their income tax. The WOTC is calculated using Form 5884.

For flow-through organizations with members in AMT, WOTC will offset AMT.

To the extent that WOTC is not fully utilized, carry forward period is up to 20 years and carry back is one year.

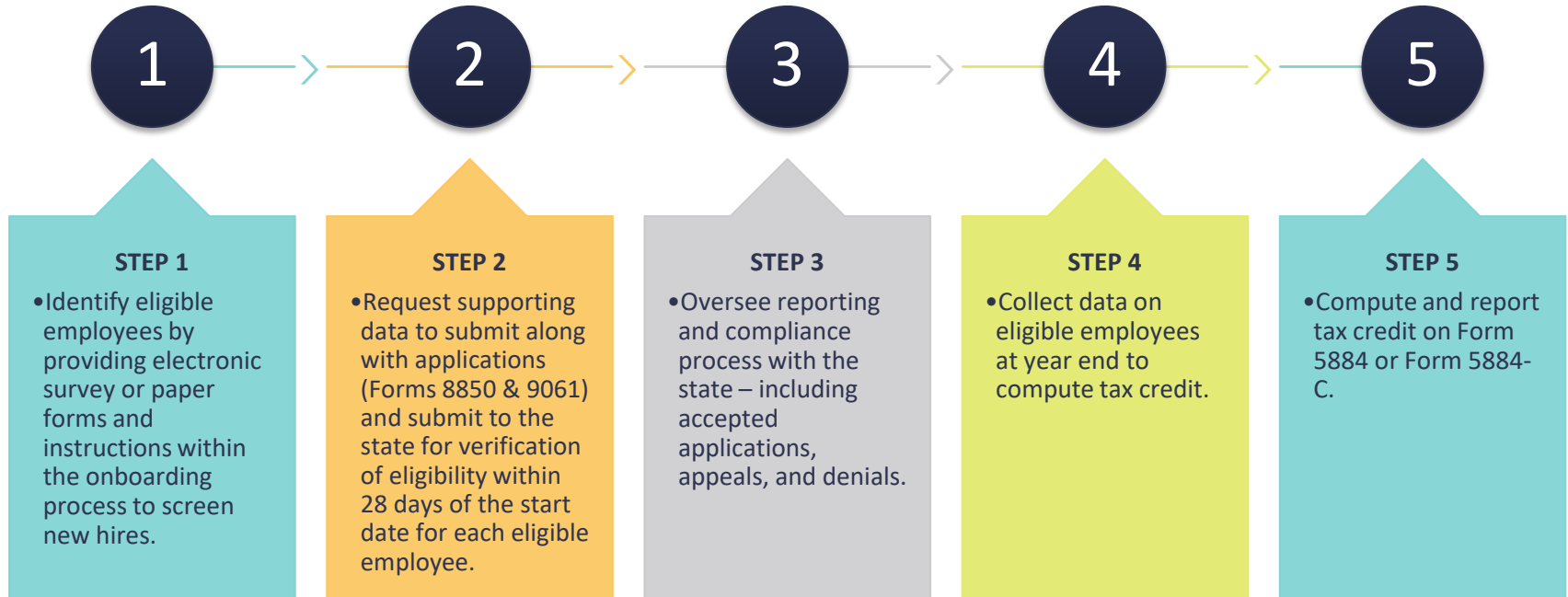


# WOTC Eligible Groups and Credit Amounts

Target group	Maximum tax credit
<b>Veterans</b>	
Receives SNAP benefits	\$2,400
<b>Veterans entitled to compensation for service-connected disability</b>	
Hired within one year of leaving service	\$4,800
Unemployed at least 6 months	\$9,600
<b>Unemployed veterans</b>	
Unemployed at least 4 weeks	\$2,400
Unemployed at least 6 months	\$5,600
<b>Other WOTC target groups</b>	
Short-term TANF recipient	\$2,400
Long-term TANF recipient	\$9,000 (over two years)
SNAP (food Stamp) recipient	\$2,400
Designated community resident	\$2,400
Vocational rehabilitation referral	\$2,400
Ex-felon	\$2,400
SSI recipient	\$2,400
Qualified long-term unemployment recipient	\$2,400



# Our Services and Process



# WOTC Hiatus: Next Steps



The Work Opportunity Tax Credit expired 12/31/2025, but it is usually reauthorized retroactively.



CLA is still collecting new-hire data and will submit applications for hires in 2026, preparing for potential reauthorization.



We recommend maintaining WOTC-related activity to establish eligibility if the program resumes, avoiding interruptions in processes.



# Federal Empowerment Zone Credit (FEZ)



# Federal Empowerment Zone Credit

Provides businesses with an incentive to hire individuals who both **live and work** in an Empowerment Zone (EZ)

EZ = designated areas of high poverty and unemployment

Calculated on Form 8844 – Flows through to Form 3800 – General Business Credit

Credit is 20% of employer's qualified zone wages (up to \$15,000) paid or incurred during the calendar year for services performed

**Credit is eligible every year for each employee**

**15,000 X 20% = \$3,000**

Any employer who pays "qualified zone wages" to a "qualified zone employee" for at least 90 days can claim the credit.

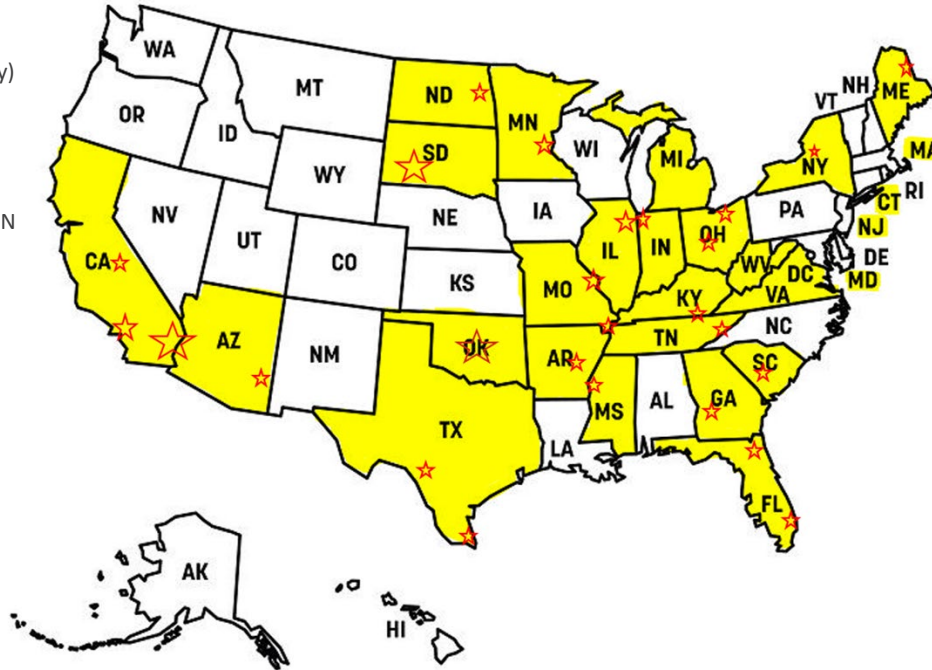
Location of the worksite is controlling rather than the company headquarters.



# Where Are The Empowerment Zones?

## Parts of the following urban areas:

- Pulaski County, AR
- Tucson, AZ
- Fresno, CA
- Los Angeles, CA (city and county)
- Santa Ana, CA
- New Haven, CT
- Jacksonville, FL
- Miami/Dade County, FL
- Chicago, IL
- Gary/Hammond/East Chicago, IN
- Boston, MA
- Baltimore, MD
- Detroit, MI
- Minneapolis, MN
- St. Louis, MO/East St. Louis, IL
- Cumberland County, NJ
- New York, NY
- Syracuse, NY
- Yonkers, NY
- Cincinnati, OH
- Cleveland, OH
- Columbus, OH
- Oklahoma City, OK
- Philadelphia, PA/Camden, NJ
- Columbia/Sumter, SC
- Knoxville, TN
- El Paso, TX
- San Antonio, TX
- Norfolk/Portsmouth, VA



## Parts of the following rural areas:

- Desert communities, CA (part of Riverside County)
- Southwest Georgia United, GA (part of Crisp County and all of Dooly County)
- Southernmost Illinois Delta, IL (parts of Alexander and Johnson Counties and all of Pulaski County)
- Kentucky Highlands, KY (part of Wayne County and all of Clinton and Jackson Counties)
- Aroostook County, ME (part of Aroostook County)
- Mid-Delta, MS (parts of Bolivar, Holmes, Humphreys, Leflore, Sunflower, and Washington Counties)
- Griggs-Steele, ND (part of Griggs County and all of Steele County)
- Oglala Sioux Tribe, SD (parts of Jackson and Bennett Counties and all of Shannon County)
- Middle Rio Grande FUTURO Communities, TX (parts of Dimmit, Maverick, Uvalde, and Zavala Counties)
- Rio Grande Valley, TX (parts of Cameron, Hidalgo, Starr, and Willacy Counties)



# WOTC and FEZ Resources



WOTC service page:

[Work Opportunity Tax Credit \(WOTC\) Services: CLA](#)



FEZ service page:

[Federal Empowerment Zone Tax Credits: CLA](#)



WOTC hiatus article: [A Guide to WOTC and the Current Hiatus: CLA](#)



# Indirect State and Local Tax (iSALT) Credits and Incentives



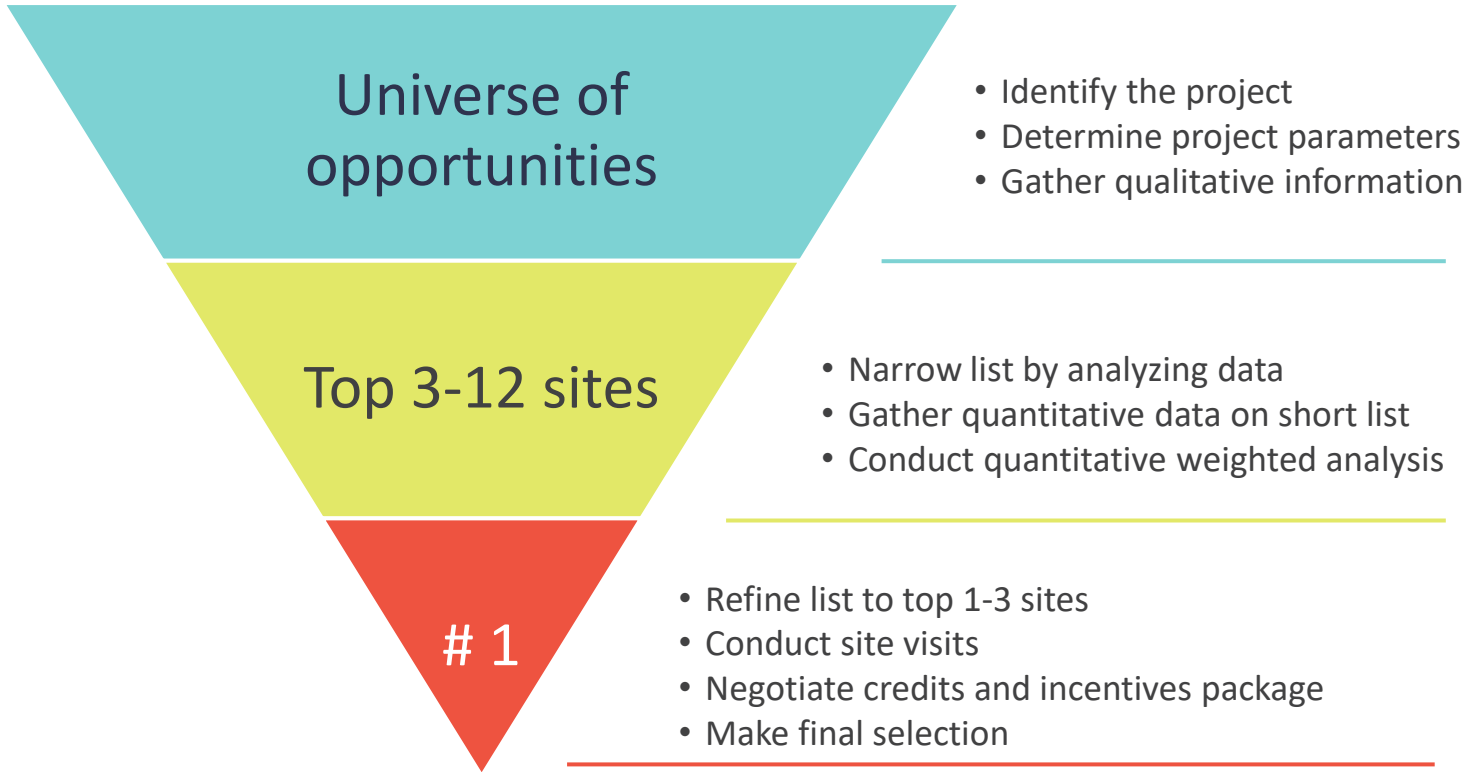
# State and Local Tax Credits and Incentives

## Opportunity

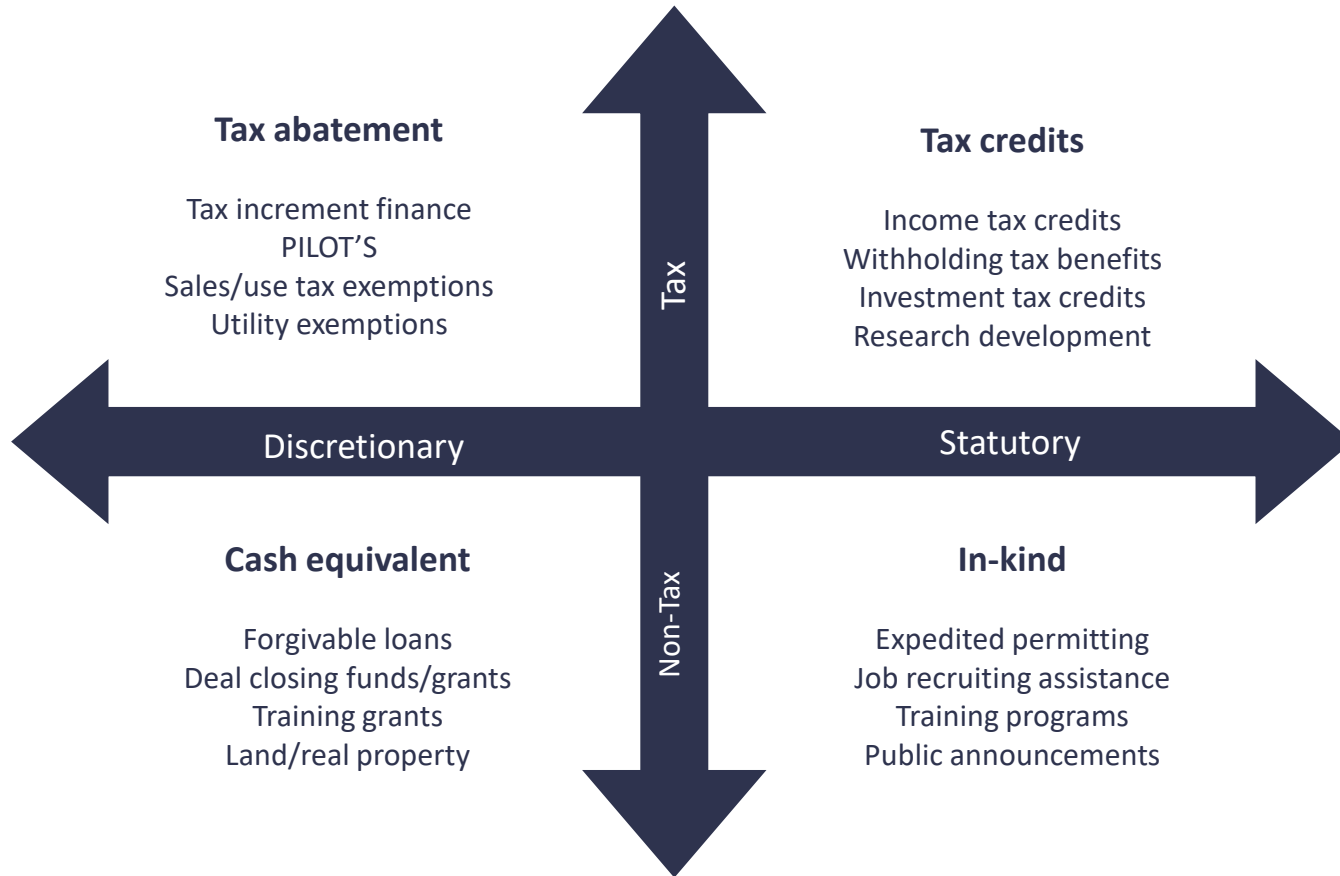
- Evaluate existing operations and strategic plans for C&I opportunities and assist businesses throughout the C&I life cycle.
- The effective use of state and local credit and incentive strategies can lower tax burden, enhance the return on capital investments, and improve overall business operations.
- Often companies can realize significant benefits amounting to between 15-30% of project capital investment.



# Site Selection Process Overview



# Types of Credits and Incentives



# Assistance for Training and Recruitment

- There are over 200 state and federal economic development programs supporting workforce development across the country
- Programs assist employers of all sizes and types to recruit, develop and retain the leading employees for their needs
- Eligible training assistance varies but can include onboarding, OSHA training and more

## On-the-job training

- Federally funded program, implemented at the state level – often through regional workforce boards
- Hire from pool of eligible workers, they train on-the-job, company gets reimbursed up to 50% of the employee's wages for while they are training.
- Specific benefits vary by state

## Other workforce programs

- State funding, program eligibility, and potential benefits vary greatly from state to state
- Typically benefits take the form of grants, partial reimbursement, or in-kind services
- Often administered in partnership with community colleges, colleges, and universities
- Can be for a single employer or partnerships of large employers with common needs



# Credits and Incentives by Type

State targeted entity profile		
Industry	Investment	Employment
Manufacturing and distribution	Minimum investment of \$3M in 2 to 3-year timeframe	Net new job creation of at least 10 jobs in one location
Life sciences		
Private equity and venture capital	Investment can be in real and/or personal property	Potential incentives for retention of existing jobs
Technology		
Real estate	Specific requirements vary by state and locality	Specific requirements vary by state and locality
Headquarters or back office		



# Polling Question

Which of the following credits or incentives would you like help evaluating for your organization over the next 6-12 months?

- R&D credits
- Energy credits
- State and local credits or location-based incentives
- WOTC and FEZ credits
- Other
- Nothing at this time



*Thank you!*

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# Appendix

# South Carolina Job Development Credit (JDC)

## Primary benefit

- Cash reimbursements or retain cash from employee withholding taxes to offset approved capital investments.

## Job requirements

- Create  $\geq 10$  new full-time jobs (within 5 years)

## Investment requirements

- Capital investment in new or expanding SC operations is required Investment must be significant (often millions of dollars; varies by project) and in eligible expenses (e.g. land, buildings, machinery, infrastructure).



# Louisiana High-Impact Jobs Program

## Primary benefit

- Offers qualifying companies reimbursable grants for the creation of new jobs that pay above the parish (county) average wage. Companies of all sizes can benefit from grants administered directly by Louisiana Economic Development, with higher wages yielding higher grants.

## Job requirements

- Grants are awarded as a percentage of wages paid:
  - 18% grant for new jobs paying at least 125% of the parish average wage
  - 22% grant for new jobs paying at least 150% of the parish average wage



# Texas Enterprise Zone Program

## Primary benefit

- State sales tax refunds: refund of Texas state sales and use tax (6.25%) on qualified capital purchases for approved projects.
- Performance-based

## Job requirements

- Jobs: create and/or retain new full-time jobs (Texas residents) as specified in project agreement.

## Investment requirements

- Minimum investment:  $\geq$ \$40,000 new capital investment (equipment, facilities, etc.) to qualify

Project	Level of CapEx	Maximum potential refund	Maximum refund per job allocated
Half Enterprise Project	\$40,000 to \$5,000,000 or more	\$625,000	\$2,500
Enterprise Project	\$5,000,000 to \$149,000,000	\$1,250,000	\$2,500
Double Jumbo Project	\$150,000,000 to \$249,000,000	\$2,500,000	\$5,000
Triple Jumbo Project	\$250,000,000 or more	\$3,750,000	\$7,500



# Arizona Quality Jobs Tax Credit

## Primary benefit

- Tax credit: Arizona income or premium tax credits of up to \$9,000 per new full-time job, disbursed as \$3,000 per year for 3 years, to reward high-quality job creation.
- Issued on a first-come, first-served basis

Minimum CapEx	Minimum # Of net new jobs (qep's) added	Percent of county median wage
<b><u>Urban locations</u></b>		
\$5,000,000	25	100%
\$2,500,000	25	125%
\$1,000,000	25	150%
\$500,000	25	200%
<b><u>Rural locations</u></b>		
\$1,000,000	5	100%
\$500,000	5	125%
\$100,000	5	150%



# Georgia Jobs Tax Credit

## Primary benefit

- Dollar-for-dollar tax credits for each new full-time job created in Georgia, ranging from \$750 up to \$4,000 per job annually (depending on the county's economic "tier") for 5 years.

## Investment requirements

- No direct capital investment is required for the basic Job Tax Credit; eligibility is based on job creation meeting the above criteria.

County tier	Minimum new jobs	Tax credit per job (annual, for 5 years)
Tier 1 – Least Developed	2	\$4,000 per job/year (includes \$500 JDA bonus)
Tier 2 – Moderately Developed	10	\$3,000 per job/year (includes \$500 JDA bonus)
Tier 3 – Developed	15	\$1,750 per job/year (includes \$500 JDA bonus)
Tier 4 – Most Developed	25	\$1,250 per job/year (includes \$500 JDA bonus)
Military or Opportunity Zone	2	\$3,500 per job/year
Less Developed Census Tract	5	\$3,500 per job/year



# Georgia Investment Tax Credit

## Primary benefit

- State income tax credits worth 1%–8% of qualified new capital investments

## Investment requirements

- To qualify, a business must be in the manufacturing or telecommunications industry (including support operations) and have operated in Georgia for at least 3 years.
- The company must make a minimum new investment of \$100,000 in a Georgia in a single tax year.

County tier	Credit % – general investments	Credit % – special investments
	Standard manufacturing equipment	Recycling, pollution control, defense conversion
Tier 1 – Least Developed	5%	8%
Tier 2 – Moderately Developed	3%	5%
Tier 3 – Developed	1%	3%
Tier 4 – Most Developed	1%	3%



# Missouri Works

## Primary benefit

- Missouri Works incentivizes job creation by allowing companies to retain a portion of state income tax withholding.
- Companies earn benefits based on meeting job, wage, and investment thresholds, retaining 2% to 4% of wages per job annually.

## General qualifying criteria

- Must be a company contributing to the economic base of the state.
- Apply for pre-approval before commencing hiring and performance of the obligations.





# 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



# Options under 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

- Caution - AAR

Average annual  
gross receipts  
under \$31M

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

Election

- 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)

## Two expensing options

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

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

## More cost effective

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



# 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.

<b>37</b>	Enter the number of business components generating the QREs on line 5 or line 20 . . . . .	<b>37</b>	
<b>38</b>	Enter the amount of officers' wages included on line 42 . . . . .	<b>38</b>	
<b>39</b>	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		
<b>40</b>	Did you include any new categories of expenses as current year QREs? . . . . <input type="checkbox"/> Yes <input type="checkbox"/> No		
<b>41</b>	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)	<b>41</b>	
	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.		



# 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

**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.

	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)
BC				
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
BC	49(e) Software (if applicable, select from the available options)	49(f) Describe the information sought to be discovered. Use the space provided.		
1				
2				
3	a. IUS	High level description		
4	b. DFS			
5	c. Excepted from IUS treatment			
6	d. Non-IUS			
7				
8				
9				
10				
11				
12				
13				
14				
15				



# 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

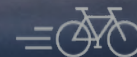
**Section G—Business Component Information** (continued). Complete lines 50 through 56 for each business component. If you have more than fifteen business components, see instructions.

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	<b>Direct Wages</b>	<b>Supervision Wages</b>	<b>Support Wages</b>	<b>Total Wages</b>
2				
3				
4				
5				
6				
<b>Total</b>				
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	<b>Supplies Cost</b>	<b>Leased Computing</b>	<b>Contract Labor</b>	
2				
3				
4				
5				





# Audit 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 approximately 25%
- Appeals down approximately 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



# 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 \$250k/year
- Businesses with 250 or more employees claim 3% of QRE + 10% of amount exceeding base not to exceed \$2M/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.





# R&D Procedural Updates



# 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.



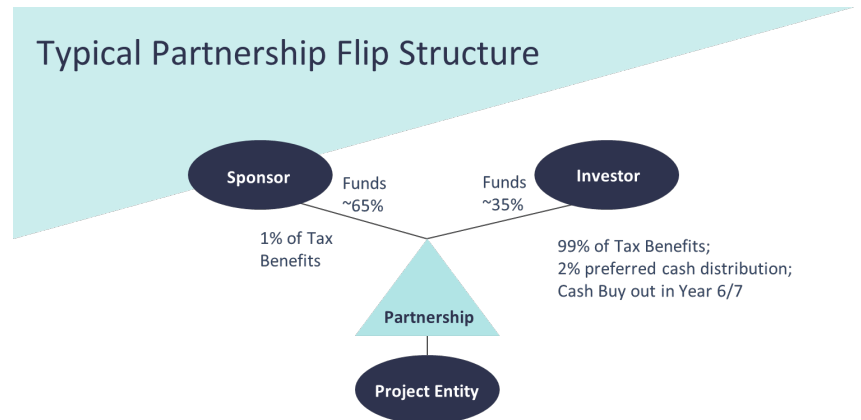


# Clean Energy Credits



# Historical Tax Equity in a Nutshell

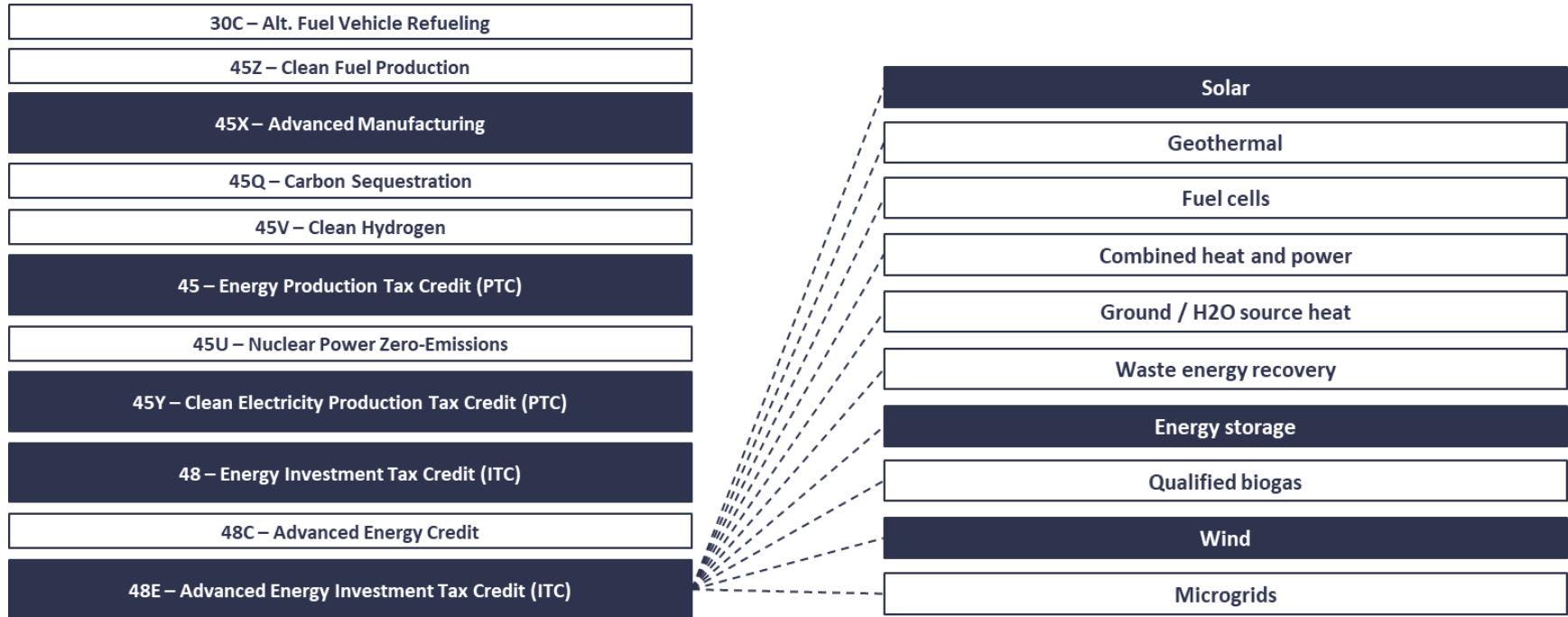
- **Sponsor:** Developer who lacks sufficient tax base to monetize tax credit and depreciation benefits.
- **Investor:** Cash taxpayer who utilizes available cash to generate strong ROI.
  - **Cash outflows:** Initial cash (tax equity) investment
  - **Cash inflows:** (i) Reduced cash tax liability via receipt of tax credits and tax depreciation, (ii) quarterly or annual preferred cash distributions, (iii) end of deal cash buy-out
- **Flip structure:** In the typical partnership flip transaction, the partnership allocates 99% of income, loss and tax credits to the tax equity investor until it reaches a target yield. Cash is shared in a different ratio. After the yield is reached, the investor's share of benefits typically drops to 5% and the developer has an option to buy the investor's remaining interest.



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# Types of Transferable Credits



# ITC vs. PTC

## Investment tax credit

- Sections 48 and 48E
- Credit based on a percentage of eligible basis
- 6% or 30% if PWA is met or exception applies
- Subject to 5-year recapture period
- Bonus credits available

## Production tax credit

- Sections 45, 45Y, 45X, and 45Z
- Credit based on production (kilowatt hours, eligible components, gallons of fuel)
- Not subject to recapture
- Bonus credits available
- Tend to trade at higher prices



# Sizing the Credit – Benefit Illustration

<b>Tax credit benefit illustration</b>	<b>\$5M tax credit purchase</b>
Estimated tax liability	\$ 5,000,000
Amount of tax liability for general business credit offset	\$ 3,756,250
Tax credit purchase at \$0.90	\$ 3,380,625
<b>Estimated cash tax savings (tax-free)</b>	<b>\$ 375,625</b>



# Prevailing Wage and Apprenticeship (PWA)

Major issue in due diligence

Increases base credit by 5X (from 6% to 30%)

All laborers and mechanics employed on an energy construction project must be paid at least the prevailing wage rates for the type of work performed in the geographic area of the facility as determined by the Department of Labor in accordance with the Davis-Bacon Act

Must maintain strict recordkeeping of each laborer or mechanic's hourly rates, hours worked, deductions from wages, and actual wages paid, among other records



# PWA

Taxpayer and its contractors/subcontractors who employ four or more workers on an energy construction project (including repair work) must hire at least one qualified apprentice

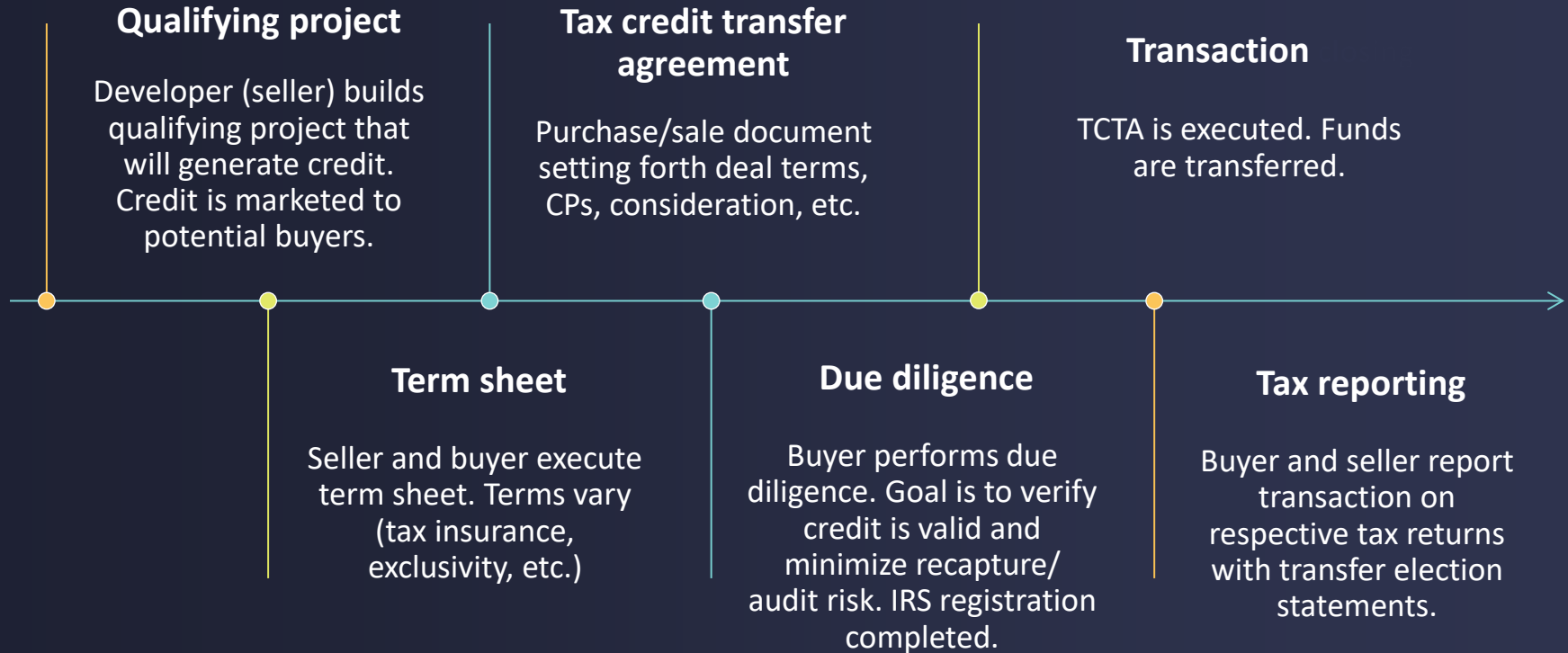
For construction beginning in 2023, at least 12.5% of the total labor hours on a construction project (including repair work) must be performed by a qualified apprentice from a registered apprenticeship program

Percentage increases to 15% for projects beginning in 2024 and after





Good faith exception for apprenticeship requirements if qualified apprentices have been requested from a registered apprenticeship program and either (i) the request was denied for reasons other than the taxpayer, contractor, or subcontractor's refusal to comply with the program's standards and requirements, or (ii) the program failed to respond within five business days of receiving a request



# Typical Deal Progression



# Key Risks To Consider

		<b>Description</b>
Qualification		Project qualifies for the full tax credit + adders
Basis		Basis used to calculate the amount is correct
Structure / taxpayer		Project and entities' structure are correct** <i>Important when step-ups</i>
Recapture		Tax credits will not be recaptured in first 5 years



# Notice 2025-42 BOC Guidance

Issued 8/15/2025

Applies only to wind and solar projects

## Key takeaways:

- Physical work test is now the sole method for establishing BOC
- Five percent safe harbor is available only for low-output solar projects ( $\leq 1.5$  MW AC)
- Outlines qualifying and non-qualifying activities
- Covers third-party work
- Taxpayers must maintain a continuous program of construction
- Covers retrofits, property transfers, project aggregation



# Foreign Entities of Concern (FEOC)

Generally applicable to tax years beginning after 7/4/2025

Could negate entire credit claim

Will require additional/extensive analysis before claiming or transacting credits

FEOC provisions apply at project and taxpayer/ownership levels

FEOCs include:

- Foreign-influenced entities
- Specified foreign entities

