

# Form 6765, *Credit for Increasing Research Activities*, significantly expands reporting requirements

February 17, 2025

## In brief

### What happened?

A final version of [Form 6765](#), *Credit for Increasing Research Activities*, and [Instructions](#) is now available for taxpayers to claim the Section 41 research credit on their 2024 federal income tax returns. The revised form, which requires taxpayers to submit significantly more information about their research activities and business components than prior versions, represents the most significant revision since replacement of the Alternative Incremental Credit with the Alternative Simplified Credit in 2009.

Final Form 6765, dated December 2024, reflects changes based on comments received from various external stakeholders with respect to previous draft versions of the form released in 2024 and 2023. The IRS has indicated that the revisions to the form are intended to (1) make tax reporting more consistent, (2) improve the information received for tax administration, and (3) build an ongoing effort to manage resources in a more effective and efficient way.

### Why is it relevant?

Taxpayers have been waiting for the updated Form 6765 and instructions since the IRS announced new criteria for valid Section 41 research credit refund claims in October 2021, which generally require taxpayers to provide detailed information and break out research activities by business component. The significant increase in information required to be disclosed may mean that taxpayers need to involve other parts of the organization, including the legal and technology departments.

The final version of Form 6765 generally is applicable for 2024 tax years, except for Section G – Business Component Information, which calls for detailed information about the research activities and expenses underlying each business component that is included in the credit claim. Completion of Section G is optional for all filers for 2024 tax years to allow taxpayers time to transition to the new format. Section G will be effective beginning in 2025.

## Action to consider

For the 2024 Form 6765, taxpayers should determine which information regarding research activities they will be required to provide to complete and whether to complete Section G. Taxpayers also should consider involvement of individuals outside the tax department and how to handle disclosure of potentially sensitive information to the IRS.

## In detail

### Section 280C election

The reduced or gross credit election under Section 280C is now made at the top of Form 6765 on Item A on an originally filed return, including extensions. This is a change from the prior form which embedded the election in the Regular Credit and Alternative Simplified Credit sections.

**Observation:** The new form does not change the ability of taxpayers to take the gross credit in lieu of the net credit under Section 280C. Electing the gross credit has resulted in a significant incremental benefit for most taxpayers for tax years beginning on or after 1/1/2022, and the form changes do not impact the ability to make a yearly election on an originally filed return or extension.

### Controlled group information

Item B asks whether the taxpayer is a member of a controlled group or business under common control. For taxpayers that are a member of a controlled group, the instructions have modified the information required to be attached to the tax return. While the prior form instructions required taxpayers to provide only (1) how their share of the credit was figured, (2) the name and employer identification number (EIN) of the other members of the group, and (3) identification of the designated member, the revised instructions require the taxpayer's attachment to provide extensive information for each entity in the controlled group.

**Observation:** The instructions also require taxpayers to indicate in the attachment the number of controlled group members for the current and previous tax year. Although controlled group members have always been factored into their calculations, taxpayers previously have not been required to provide details on the members of their respective groups. Gathering this data may be challenging for some taxpayers with groups of related parties that typically do not share data or information.

Additionally, the instructions require taxpayers to indicate if qualified research expenditures (QREs) claimed in the attachment are being claimed as one consolidated controlled group return or on separately-filed returns.

### Sections A through F

Taxpayers using Form 6765 to claim research credits for 2024 must complete the following sections:

- Section A - Regular Credit OR Section B - Alternative Simplified Credit;
- Section C – Current Year Credit;

- Section D – Qualified Small Business Payroll Tax Election and Payroll Tax Credit (only if the payroll tax election applies);
- Section E - Other Information; and
- Section F - Qualified Research Expenses Summary.

### **Updated Sections A and B**

Final Form 6765 updates Sections A and B by:

- Removing the questions regarding the Section 280C reduced credit election. As discussed above, this election was moved to Item A at the top of the form.
- Moving the individual lines for reporting wages, supplies, contract research, and computer rental from Schedule A to new Schedule F; and
- Moving the total QREs to be reported from Schedule F to Schedule A or B (whichever is applicable).

Consistent with the prior version of the form, taxpayers are required to complete Sections A and B of the revised final form based on controlled group information. Thus, while lines 5 (for Regular Credit) and 20 (for Alternative Simplified Credit) indicate that the taxpayer should enter the amounts from line 48 (Schedule F), the instructions indicate that instead taxpayers should enter the controlled group total. Taxpayers then enter their share of the controlled group credit on line 13 (Regular Credit) or line 26 (Alternative Simplified Credit). This amount must be computed and shown on the required group credit attachment discussed above. By contrast, the instructions generally indicate that Sections E, F, and G (described below) are to be completed only with the taxpayer's items, rather than the controlled group totals, with certain areas of uncertainty described below.

### **Sections C and D**

Sections C (Current Year Credit) and D (Qualified Small Business Payroll Tax Election and Payroll Tax Credit) of final Form 6765 are consistent with the prior version of the form.

### **New Section E**

Final Form 6765 adds new Section E with five questions seeking information on:

- The number of business components generating the QREs;
- The amount of the officers' wages included in the wages for qualified services;
- Whether the taxpayer acquired or disposed of any major portion of a trade or business in the tax year;
- Whether the taxpayer identified any new categories of expenses included in the current year QREs; and
- Whether the taxpayer determined any of the QREs following the Accounting Standards Codification (ASC) 730 Directive.

The instructions indicate that officers' wages are the wages for qualified services that are attributable to any officer of the reporting entity. Whether an individual is an officer is determined under the laws of the state where the entity is incorporated. When corporate officers perform services for the corporation and receive or are entitled to receive payments, their compensation generally is considered wages.

**Observation:** This information field may require taxpayers to take an additional step in their research credit quantification process of identifying which individuals are considered officers under state law. It is unclear why taxpayers are required to collect and report this information, as Section 41 does not distinguish the treatment of wages for qualified services performed by an officer's wages to any other employee of the taxpayer.

**Observation:** It appears that the questions relating to the amount of officers' wages, acquisitions/ dispositions, and new categories of expenses need to be reported with respect to the taxpayer and not with respect to the controlled group. According to the line items and instructions, these questions are concerned with QREs included on lines 42 and 48 (Section F) of the final form. Section F instructions indicate that these amounts include only the taxpayer's amounts and not the controlled group totals.

There appears to be some inconsistency between the final form and the final instructions on whether the number of business components and the QRE under the ASC 730 Directive need to be reported based on the taxpayer's specific amounts. The line items indicate that these are based on the amounts included in lines 5 (Regular Credit) or 20 (Alternative Simplified Credit), which are required to be reported on a controlled group basis. The instructions, however, indicate that these amounts are to be reported based on the amounts included in line 48 (Schedule F), which is the taxpayer specific amount.

## New Section F

Final Form 6765 adds new Section F which reports the QRE detailed information (wages, cost of supplies, rental or lease cost of computers, contract research) that had been included in Sections A and B in the prior version of the form.

**Observation:** The instructions indicate that these amounts should flow from new Section G when Section G is required. The instructions indicate that the taxpayer reports only its items rather than the controlled group total on these lines.

## New Section G

The most significant development in final Form 6765 is the addition of Section G, which requires taxpayers to provide the following detailed information with respect to each business component:

- The EIN of the controlled group member conducting the research activities on the business component;
- The entity's PBA code;
- The business component's name or a unique alphanumeric identifier;
- The business component type: product, process or other (e.g., computer software, technique, formula, or invention);
- Identification of the software type for computer software business components (i.e., internal use software, dual function software, non-internal use software, or excepted from internal use software treatment);
- A description of information sought to be discovered (required only for amended tax returns);
- Quantification of wage QREs, by business component, based on whether they are direct research wages, direct supervision wages, or direct support wages for qualified services; and
- Quantification of QREs, by business component, based on whether they are supply costs, rental or lease of computer costs, and contract research expenses by business component.

The IRS has limited the number of business components taxpayers must report in Section G to at least 80% of total QREs by business component, but no more than 50 business components (80%/Top50). Each business component representing 80%/Top50 must be listed in descending order by the total QREs per business component. The aggregate of the remaining business components is reported on a single line labelled "Aggregate BCs."

The instructions to the final form include special instructions for taxpayers using the ASC 730 Directive that can report ASC 730 Directive QREs as a single line item on Section G. If the ASC 730 Directive QREs account for at

least 80% of total QRE, no other business components are required to be listed. Additionally, there are special instructions for taxpayers that use statistical sampling in accordance with Rev. Proc. 2011-42.

**Observation:** Additional clarifications on reporting the use of statistical sampling may be forthcoming because the period for comments to be accepted by the Treasury closes on June 30, 2025.

Finally, the instructions to Schedule G provide that taxpayers that are part of a controlled group need to report only their own business components and do not need to report the business components of other members of a controlled group.

**Observation:** This is a welcome clarification, as in many situations taxpayers may not have had access to all of the information required in Schedule G for other members of the group, particularly in controlled group relationships that are less than 100% common ownership.

**Observation:** It is important for taxpayers to be aware that the instructions indicate that they need to reflect a separate line item in Schedule G for each legal entity that is conducting the research activities to ensure their processes are collecting this information for each business component. This requirement could potentially be complex for taxpayers with multiple legal entities conducting research activities on the same business components.

## Refund claims

Taxpayers filing refund claims that involve an increase in the amount of the research tax credit should be aware that they still are subject to the requirements of FAA20214101F outlined on IRS.gov. This includes attaching schedules to the amended tax return that provide the following information:

1. Identify all the business components to which Section 41 research credit claim relations for that year;
2. For each business component, identify all research activities performed; and
3. Provide the total qualified employee wage expenses, total qualified supply expenses, and total qualified contract research expenses for the claim year.

## Optional Section G reporting for 2024 tax year and for certain small business taxpayers

While the final form is applicable for the 2024 tax year, Section G is optional for all taxpayers for 2024 and will be effective beginning in 2025.

Certain taxpayers will not be required to complete Section G in any year. The instructions to the final form provide that Section G will be optional for:

- Qualified small business taxpayers that check the box to claim a reduced payroll tax credit; or
- Taxpayers claiming the research credit on an original filed return with total QREs equal to or less than \$1.5 million (determined at the control group level) and gross receipts equal to or less than \$50 million.

**Observation:** Overall, the final revised Form 6765 represents a significant departure from the Form 6765 that was required for 2023 and prior year tax returns. It is important for taxpayers to be aware of these changes and ensure that they collect the necessary information to report on their tax returns.

## See also

For more information, see our Policy on Demand episode, [Expect heavy lift from new R&D credit form](#), on Form 6765 and our Insight, [IRS expands compliance efforts, seeks to improve taxpayer certainty and issue resolution](#), for more information on final Form 6765.

## Let's talk

For a deeper discussion regarding final Form 6765, please contact the following:

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