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2026 Tax Season R&D Credit Overview- Anchin speaks with Imperial Advisors

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Yair Holtzman, Partner, R&D Tax Credits & Incentives Practice Leader

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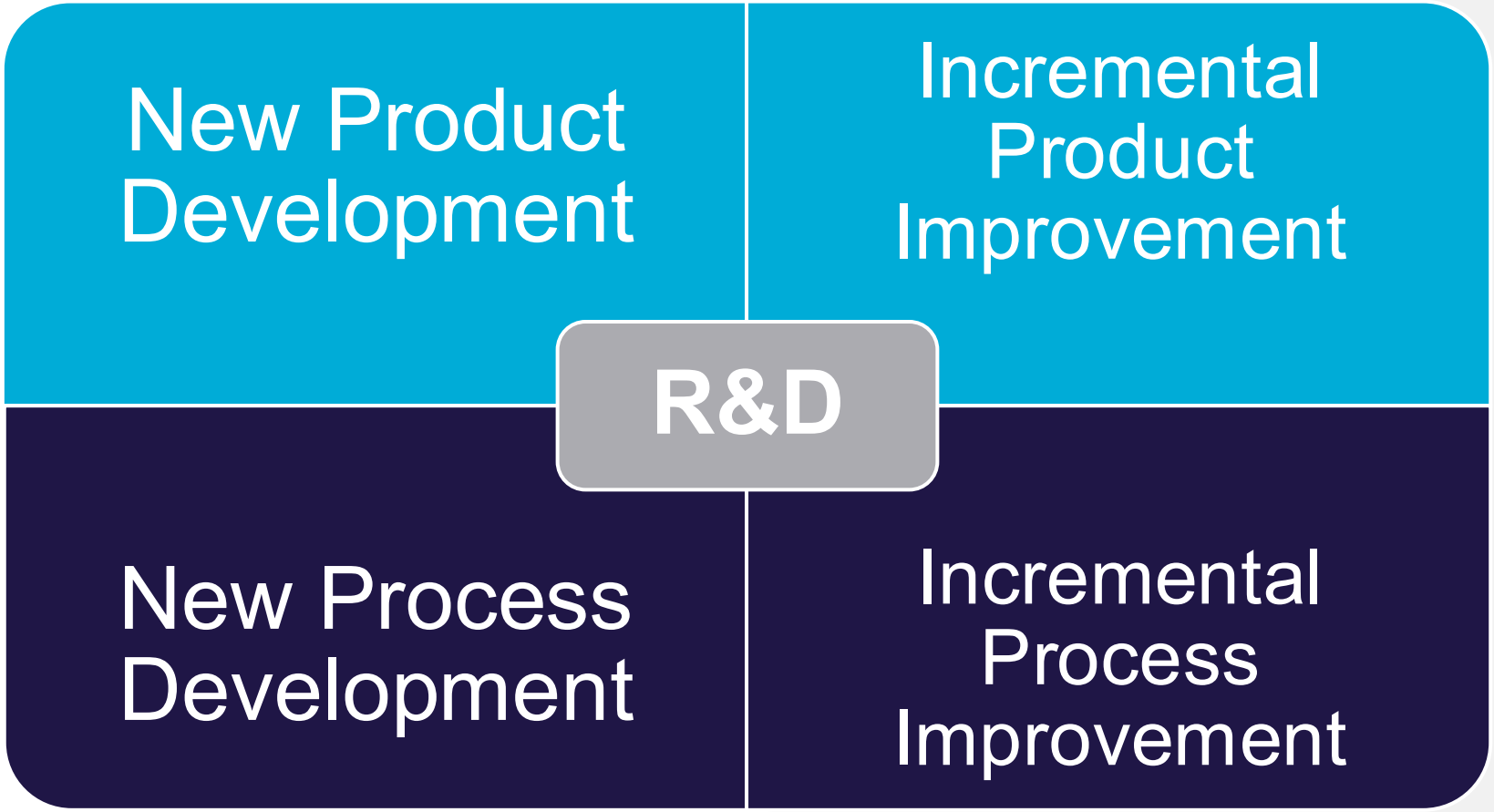
Opportunity & Benefits

- Immediate source of cash for many small- and mid-sized companies
- Much better than a deduction -- $1 for $1 reduction of tax liabilities
- Federal R&D tax credits may be carried back one year and forward for up to 20 years
- State R&D tax credits are available in over 30+ states
- An R&D tax credit lowers a company's effective tax rate
- R&D tax credits refuel the research and development cycle

4 Types of Permitted Purpose



New or Incremental to the Company, Not to Industry or World!!!

What is Qualified Research? The "Four-Part Test"

1. Permitted purpose

- The activity must relate to a new or improved business components:
  - Function
  - Performance
  - Reliability
  - Quality

2. Technical uncertainty at the outset

- Uncertainty exists if the information available does not establish the following:
  - Capability or method for developing or improving the business component
  - Appropriate design of the business component

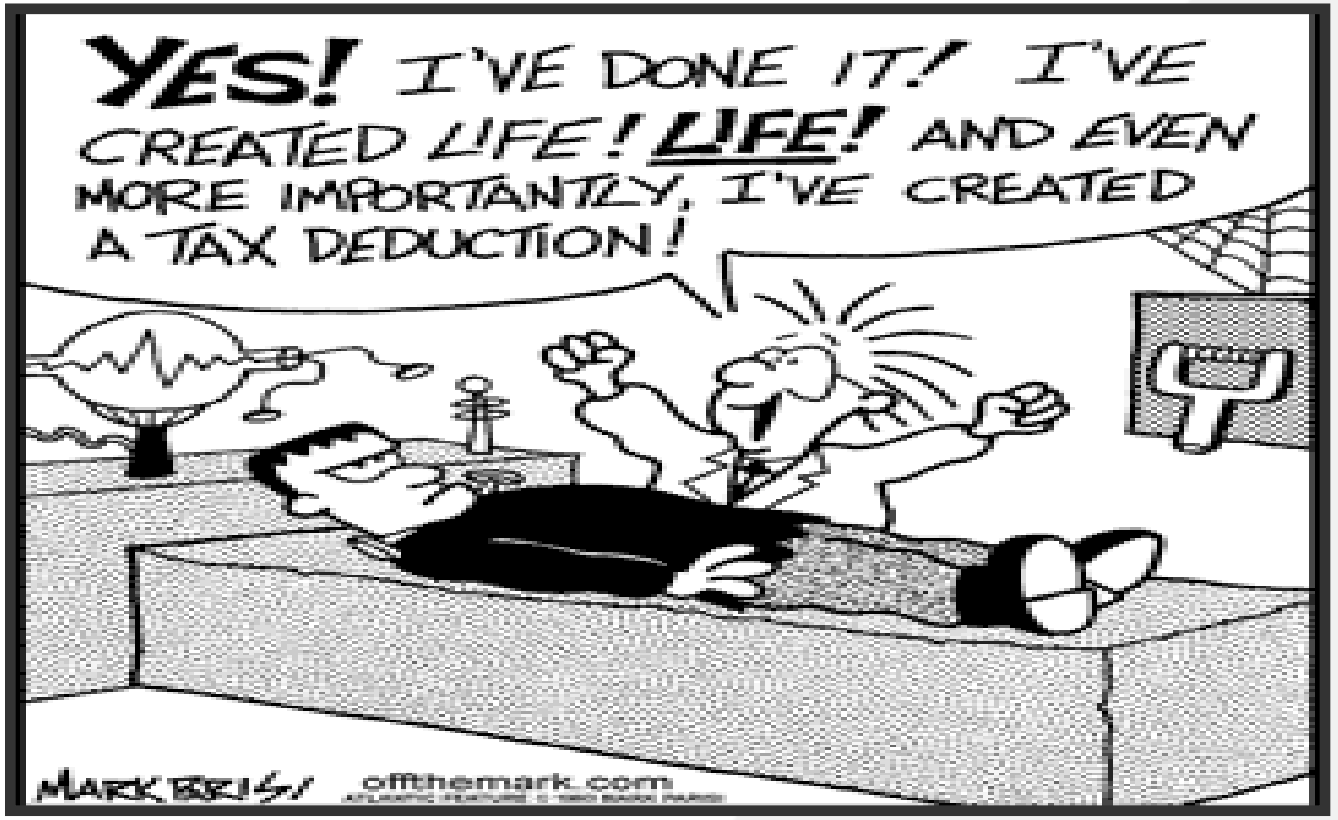
3. Technological in nature

- The activity performed must fundamentally rely on principles of:
  - Engineering
  - Biological science
  - Computer science
  - Physical science

4. Process of experimentation

- Substantially all of the activities must be elements of a process of experimentation to eliminate technical uncertainty
- Evaluation of alternatives
- Confirmation of hypotheses through testing and/or modeling
- Refining or discarding of the hypotheses

What is R&D for Purposes of Section 41?



R&D Window of Opportunity

Qualifying Process Developments

- 6 σ
- Lean Manufacturing
- TQM/JIT
- Automation/Robotics

Manufacturing Industry Examples of Qualifying Activities

- Design and development of new products or processes
- Improvement or modification of existing products by enhancing performance, functionality, reliability or quality
- Conceptualization, ideation, feasibility analysis
- Design, development and testing of prototypes
- Manufacturing/Production process improvements through implementation of new techniques or automation technologies intended to increase yield, reduce waste, improved safety, product quality or sustainability
- Workflow analysis and layout for increased efficiencies in manufacturing or production

Examples of Qualifying Activities within the Medical / Life Science Industry

- Developing new medical devices or improving existing ones to enhance patient care, diagnosis, or treatment
- Creating prototypes of medical equipment and conducting tests to ensure they meet regulatory and performance standards.
- Engaging in the design and engineering of medical devices and equipment, including hardware and software components.
- Activities related to ensuring compliance with FDA and other regulatory requirements for medical devices.
- Conducting research and clinical trials to assess the safety and effectiveness of new medical devices.
- Designing and developing software for medical devices, such as diagnostic tools, monitoring systems, or patient data management.

Examples of Qualifying Activities in Chemical Industry

- Design and development of new products or processes
- Improvement or modification of existing products or processes that significantly enhance performance, functionality, reliability or quality
- Manufacturing or production process improvements that increase efficiencies and increase yields
- Creating new methods or techniques to minimize contamination, scrap, waste, and spoilage
- Redesigning machinery and equipment to increase throughput and add functionality
- Experimenting with ingredients and designing formulations intended to improve product quality and/or increase shelf life

Technology / Software Examples of Qualifying Activities

- Design and development of software product for commercial sale, lease or license
- Develop software where customers utilize hosted computer and/or software technology
- Programming or optimization of code for product performance issues, feature enhancements, or integration
- Establishing electronic interfaces and functional relationships between various software modules
- Conducting requirements, domain, software elements, or scope analysis for a new functional software enhancement
- Complex systems migrations, installations or integrations
- Design and development of new eCommerce solutions or payment processing software

Industries

Aerospace, Defense
Agriculture
Architectural Design
Automotive
Biotech / Technology
Chemical Manufacturing
Computers, Electronics
Construction, Installation
Electrical/Mechanical Engineering
Energy
Environmental Engineering
Financial Services
Food and Beverage
Medical Devices
Pharmaceuticals
Product Fabrication, Foundries
Product Development and Manufacturing
Printing, Publishing
Retail
Software Development
Telecom, Internet, Cloud
Waste Management

Examples of Qualifying Activities

- Designing and developing a prototype
- Developing and testing manufacturing processes and procedures
- Generating prototypes and first articles of new products for testing and validation
- Developing second-generation or improved products
- Creating engineering drawings and specs
- Performing new product designs and development
- Increasing efficiencies with robotic automation
- Programming software source code for firmware
- Compiling and testing source code for firmware
- Conducting unit, integration, functional, and performance testing
- Conducting tests to satisfy government regulatory requirements prior to commercialization

Drivers of the Calculation

1. Qualified Employee W-2 Wages

Who Qualifies?

One Step Up and One Step Down from Project Experimentation

Supervision of R&D

- Department Heads, Strategists, Senior Engineers

Direct R&D = Project Experimentation

- Engineers, Software Developers, Scientists, Most Technical Personnel

Support of R&D

- Data Gathering, Report Writing/Analysis, Determination of Specs & Requirements, QA, Some Equipment Maintenance/Improvements

Drivers of the Calculation

2. Qualified R&D Supply Expense

Includes

- Materials Consumed in Experimentation for New Product/Process Developments
- Materials Used for Building Product Prototypes
- Materials Used for Generating Samples during (NPD) New Product Developments
- Materials Consumed in Trial Runs

Excludes

- Capitalized Equipment
- Overhead (electricity, heat, insurance, etc.)

Drivers of the Calculation

3. Qualified R&D Contract Research Expense*

(Outside Consultants/Vendors Hired on Behalf of the Taxpayer)

- Research or Development Activates Must Take Place in the USA
- Activities Must Qualify Per IRC § 41
- Taxpayer Must Be Liable for Payment Regardless of Outcome
- Taxpayer Must Retain Rights to Research Results

**Allowed at 65% of expense with some exceptions*

IRC § 41 Exclusions

- Research activities conducted outside of the United States
- Research in the social sciences (including economics, business management, behavioral sciences, arts or humanities)
- Surveys, studies and research related to management or marketing functions
- Research related to style, taste, cosmetics or seasonal factors
- Routine testing, quality control, or maintenance
- Testing or inspection to determine whether particular units of materials or products conform to specified parameters is non-qualified activity (QC - Quality Control)
- Funded Research – Paid for by somebody else

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Section 174 Updates - OBBBA

OBBB Restores Full Expensing of Domestic R&E

Signed on July 4, 2025, effective for tax years after 12/31/2024.

Restores immediate deduction of domestic R&E under new §174A.Foreign R&E remains capitalized and amortized over 15 years.

Replaces TCJA rules (2017), which required 5-year amortization (domestic).

Reflects a policy focus on supporting U.S.-based R&D.

Treatment of R&E Expenditures Under §174A

Domestic R&E:

- Deduct immediately; or
- Elect to amortize over ≥ 60 months (starting when benefits are realized); or
- Optional 10-year write-off under §59(e).

Requires reduction of deductible R&E by amount of R&D credit (§41).

Changes treated as cut-off accounting method change — no §481(a) adjustment.

Recovery of Previously Capitalized R&E

Domestic R&E:

- Deduct in either first taxable year beginning after December 31, 2024, or over two years.
- Small businesses (under $31 million in gross receipts) may elect to apply the rules of §174A for taxable years beginning after December 31, 2021. Can file amended returns for all of the affected years (2022, 2023, 2024).
- Taxpayers may continue to amortize expenditures from the 2022-2024 tax years according to their original 5-year schedule.

New rules are favorable in allowing but not requiring the deduction of the previously capitalized unamortized expenditures over 1 or 2 years.

Gives flexibility in avoiding unfavorable tax consequences from the treatment of the unamortized §174 costs.

Additional Taxpayer-Friendly Elections

Retroactive Application for Small Businesses:

- For businesses ≤ $31M gross receipts, can apply changes back to 2022.
- Requires amended returns & method change.
- Election deadline: **July 4, 2026**.

Acceleration of Unamortized Costs:

- Remaining domestic R&E from 2022–2024 can be deducted over 1 or 2 years.
- Must elect beginning with first tax year after 12/31/2024.

These provide greater cash flow, flexibility & incentive to invest in U.S. R&D.

Restoration of Deduction for U.S.-Based R&D

- **Full expensing of domestic R&E costs restored under §174A**
- Applies to tax years beginning **after** Dec. 31, 2024
- Foreign R&E costs **still** amortized over 15 years
- **Optional amortization**: 60+ months or 10-year write-off

- **Small business retroactive election if average revenue less than $31 million**
- Election to **amortize** previously capitalized domestic R&E costs in 2025 or **split** ratably between 2025 and 2026

It's important to carefully analyze each planning option for your situation.

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Updated Form 6765 - Section G—Business Component Information

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				
2				
3				
4				
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6				
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10				
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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		
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Section G—Business Component Information

1. Section G, titled “Business Component Information,” is a new part of Form 6765 designed to provide detailed disclosures about the R&D activities for which the credit is claimed. It focuses on transparency and component-level reporting to help the IRS validate claims.
2. Optional for tax years 2024 and 2025 (including processing year 2026).
3. Mandatory starting with tax year 2026, except for certain small businesses and low-QRE filers:

- Qualified Small Businesses (QSBs) electing the payroll tax credit.
- Taxpayers with Qualified Research Expenses (QREs) ≤ $1.5 million and gross receipts ≤ $50 million

Section G—Business Component Information

Taxpayers must report detailed information for business components that make up at least 80% of total R&D spend, up to a maximum of 50 components. For each component, you must provide:

1. Business Component Identification - Name and description of each product, process, software, or formula being claimed
2. Qualified Research Expenses (QREs) - Break down by category: wages, supplies, and contract research
3. Wage Detail by Activity - Categorize wages into Direct, Supervisory, and Support research activities.

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The Importance of Detailed Documentation

How We Can Safeguard Our Work Product Against IRS Audits

According to the IRS Audit Techniques Guide, "a taxpayer must retain records in sufficiently usable form and detail to substantiate that the expenditures claimed are eligible for the credit."

- Time and cost estimation methods are permitted ***only when there is no clear documentation of the exact amount incurred*** in conducting the QRAs. Accordingly, taxpayers must have factual support for every assumption underlying their estimates to meet their burden of proof. They must be able to reasonably tie QREs to QRAs.
- The key takeaway is that although estimates can be used, they must be supported by a significant level of contemporaneous documentation and credible corroborating evidence and/or testimony. ***Courts are not bound to apply the Cohan rule in instances where sufficient evidence is not produced by the taxpayer.***

How We Can Safeguard Our Work Product Against IRS Audits

Per the audit technique guide, contemporaneous documentation likely to be requested by IRS agents include:

- Materials explaining research activities (brochures, pamphlets, press releases, etc.);
- Submissions to management, board of directors, or review committees regarding research projects, activities, and expenditures;
- Documents prepared by, or on behalf of, internal audit, including quarterly and annual reports that refer in any manner to research projects or activities;
- Minutes, notes, or other similar recordings from budget, board of directors, or similar meetings concerning research projects or activities;

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Next Steps

R&D Tax Credit Study Process Flow

Step	Description
1. Initial Information Request	Gather necessary documents from the client.
2. Estimated Federal and State R&D Tax Credit	Prepare preliminary credit estimates.
3. Timeline and Engagement Fee Meeting	Review process, deadlines, and fees with the client and CPA.
4. Formal R&D Tax Credit Study	Conduct detailed analysis of qualified activities and projects.
5. Additional Information Requests (if needed)	Collect any further documentation required.
6. Technical Interviews	Meet with appointed technical subject matter experts to validate qualified activities and R&D projects.
7. Tax Return Forms Preparation and Release	Complete forms and deliver to the CPA and client by the agreed-upon deadline.
8. Methodology Deliverable Report Preparation	Prepare a comprehensive report containing complete quantitative and qualitative analysis, capturing all benefits.

Information Document Request

2025 R&D TAX CREDIT STUDY - INFORMATION DATA REQUEST

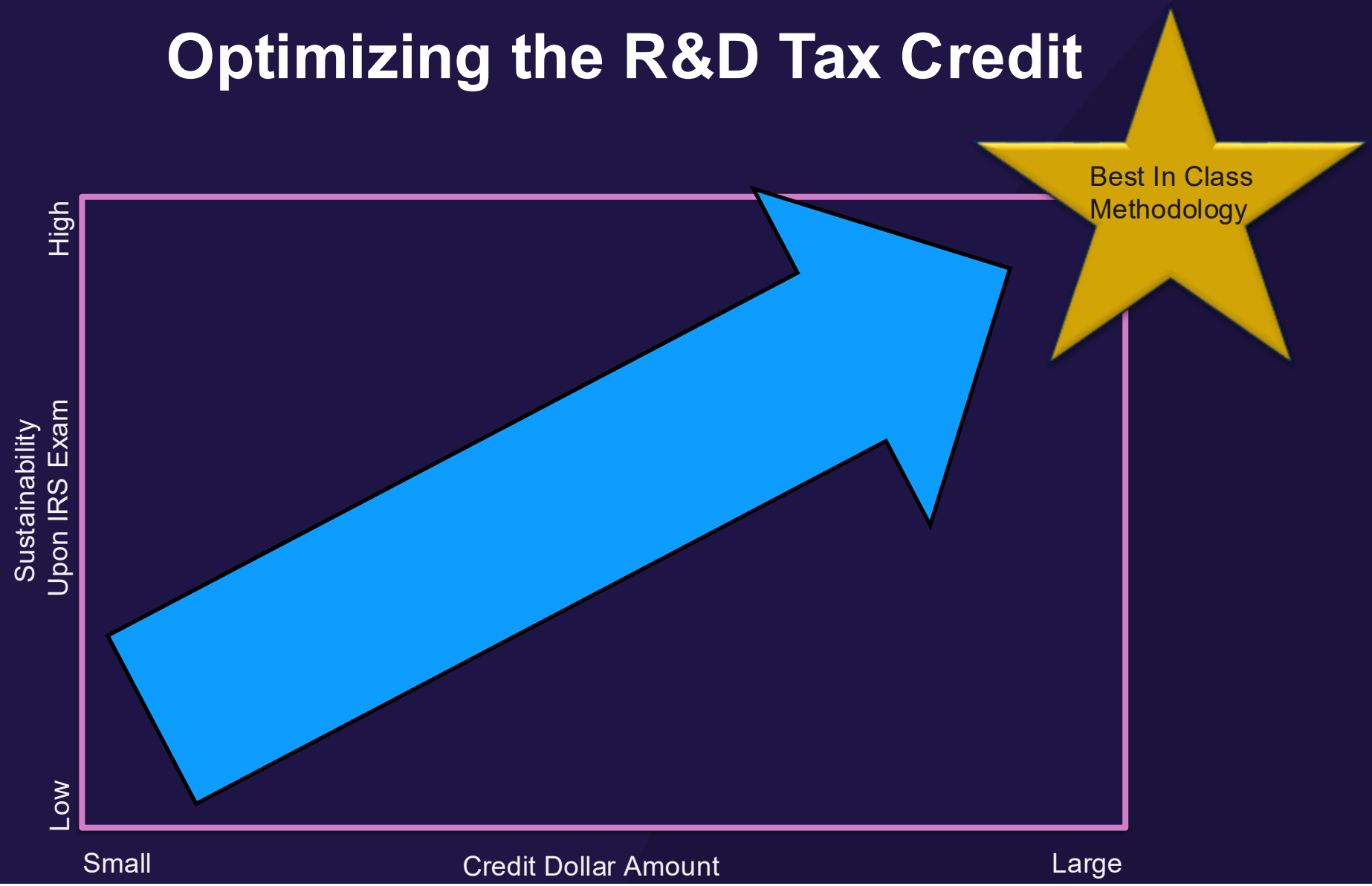
1	2025 W-2 Box 1 Wages Amounts At The Individual Level For All US Employees
2	2025 Employee Information - Employee Full Name, Department, Job Title, Hire Date, Termination Date (If Applicable), And Work Location
3	2025 R&D Contractor Expenses (1099S, Consultants Used For Product Development/Process Development, Testing, Major R&D Initiatives, Software Development) - US And Foreign. Please Provide Vendor Name, GL Account Name, Amount, Description Of The Service Provided, Location Of The Services Provided. *Please Advise If It Does Not Apply.*
4	2025 R&D Supply Expenses (Materials Used In Testing/Experimentation/Product Development/Prototypes/Trial Production Runs/Samples). Please Include The GL Account Name, Vendor Name, Expense Amount, Description Of The Expense. *Please Advise If It Does Not Apply* .

How can I determine if my client is a good candidate for the R&D tax credit?

1. Is your client developing new or improved products, processes, techniques, formulas, inventions, or software?
2. Does your client have a dedicated R&D department and/or a staff of engineers, software developers, or scientists?
3. Does your client have spent on test materials, prototyping, tooling and non-depreciable equipment, for R&D purposes?
4. Does your client spend money on outside vendors assisting with your R&D/manufacturing efforts?
5. Lastly: industry, size, profitability

2025 R&D Tax Credit Study – Building a Bridge

Optimizing the R&D Tax Credit



Yair Holtzman, CPA, MBA, MS, CGMA

Tax Partner and Practice Leader of Research and Development (R&D) Tax Credits Group

yair.holtzman@anchin.com

Cell: 914.860.5599

Office: 212.536.6933

CERTIFICATIONS

- Certified Public Accountant
- Master of Science in Accounting and Taxation
- Chartered Global Management Accountant
- Certificate of Professional Development in Leadership & Strategy – The Wharton School, University of Pennsylvania

EDUCATION

- Cornell University, MBA, Johnson Graduate School of Management
- Hofstra University, MS, Accounting and Taxation
- Brandeis University, B.A., Chemistry
- University of Pennsylvania, Graduate Studies in Chemistry

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Yair Holtzman, CPA, MBA, MS, CGMA is a Partner at Anchin where he is the Leader of the firm's Research & Development (R&D) Tax Credits Group, Life Sciences Industry Group and Chemicals and Energy Industry Group, as well as Co-Practice Leader of the Tax Credits & Incentives Group. He has more than 25 years of experience with national public accounting and management consulting firms, focusing on federal tax consulting issues and consulting with senior executives on their tax credits and other strategy development and implementation. In his former role at a Big 4 accounting firm, Yair also served as the national subject matter expert for the chemicals and life sciences industries. Yair's clients range in size from startup to Fortune 500 companies.

As a result of his in-depth experience and expertise in the R&D area, Yair has helped clients obtain several hundred million dollars in tax credits and incentives. Yair has designed and implemented procedures and technologies for companies to identify and document their R&D costs and activities in the most efficient and effective manner. He has provided sophisticated tax consulting in the areas of Section 41 R&D tax credits planning, section 199 domestic production activities deductions, M&A acquisition cost analysis, and FAS 109 and FIN 48 analysis and compliance.

Yair's expertise in the R&D area crosses a wide variety of industries, with special emphasis in Chemicals, Life Sciences, and Technology Services. He has helped companies enhance the efficiency and effectiveness of their R&D capabilities. In addition, he has helped clients improve operational performance, driving tangible results to the bottom line, by assisting them in the area of process and product development.

A frequent author and speaker on the topics of R&D tax credits, business strategy, strategic new product development, and operations excellence, Yair has been published in trade and technical journals and has spoken in academic and industry settings in the United States, Europe and Asia. He is a CPA in NY, NJ, IL and NH, a member of the AICPA, the NY and NJ State Societies of Public Accountants, and a Chartered Global Management Accountant (CGMA). He is also a member of The American Chemical Society. Additionally, Yair serves as chair of BKR International's US Tax Practice Group.

Yair obtained his Bachelor's Degree with High Honors in Chemistry from Brandeis University, a Master's Degree in Accounting and Taxation with High Distinction from Hofstra University, a Master's Degree in Business Administration from the Johnson Graduate School of Management at Cornell University with a focus on Operations Management and Manufacturing. Yair has also completed Graduate Studies in Chemistry at the University of Pennsylvania and he has earned graduate certificates in leadership and strategy from the Wharton School of Business.