

IRM PROCEDURAL UPDATE

DATE: 04/28/2017

NUMBER: wi-21-0417-0770

SUBJECT: AM Procedures for Form 8974

AFFECTED IRM(s)/SUBSECTION(s): 21.7.2

CHANGE(s):

IRM 21.7.2.2(1) Added bullet to identify new non-refundable credit applicable to Form 941, Form 943, and Form 944.

1. Form 941, Form 943 and Form 944 are filed by employers of individuals to report:
 - o The amount of federal income tax withheld from the employees' wages
 - o The employer's and employees' shares of social security and Medicare taxes
 - o The amount of Additional Medicare Tax (AdMT) withheld from employees' wages (for tax periods after December 31, 2012)
 - o The amount of any non-refundable Qualified Small Business Payroll Tax Credit for Increasing Research Activities
 - o Certain refundable credits

NOTE: Social security and Medicare taxes, including Additional Medicare Tax, are collectively referred to as FICA (Federal Insurance Contributions Act) taxes.

IRM 21.7.2.3.5(3) Added new Form 8974 to valid attachment list for Form 941 series returns in second row of table.

3. The following employment tax returns can be filed via MeF:

MeF Employment Tax Forms and Schedules	
Parent Form	Attachment to Parent Form
Form 940/Form 940-PR	Schedule A (Form 940)
	Schedule R (Form 940)
Form 941/Form 941-SS/Form 941-PR	Schedule B (Form 941)
	Anexo B (Formulario 941-PR)

	Schedule D (Form 941)
	Schedule R (Form 941) Form 8974 (as PDF attachment)
Form 943/Form 943-PR	Form 943-A
Form 944	Form 945-A
Form 945	Form 945-A

IRM 21.7.2.4.1(1) Added row to table for new IRN 119.

1. Use Item Reference Numbers (IRN's) to adjust tax, wages, and Credit Reference Numbers (CRN's) to adjust applicable credits on employment tax returns.
2. The current valid reference numbers for Form 941 adjustments are listed in the table below. Except where noted, the reference numbers also apply to Form 944 accounts.

Item Reference Number	Explanation
111	Total income tax withheld
004	Taxable social security wages
005	Taxable social security tips
073	Taxable Medicare wages & tips
074	Taxable Wages & tips subject to Additional Medicare Tax withholding (valid for Forms 941/943/944 for tax periods beginning after December 31, 2012)
112	Total social security and Medicare tax (including Additional Medicare Tax for tax periods beginning after December 31, 2012)
114	Section 3121(q) Notice and Demand - Tax due on unreported tips CAUTION: IRN 114 is only valid for Forms 941 and only for tax periods 201103 and subsequent.
104	Special rates for federal income tax (IRC Section 3509)
105	Special rates for social security, Medicare tax, and Additional Medicare Tax (IRC Section 3509)
106	Current quarter's fractions of cents (Form 941)/Current year's adjustments (Form 944)
107	Current quarter's sick pay (N/A for Form 944)
108	Current quarter's adjustment for tips and group life insurance (N/A for Form 944)
113	Total adjustments

	REMINDER: IRN 113 must equal the sum of any IRN 104 through 108 changes (IRNs 104 through 110 for adjustments to returns 200812 and prior)
119	Qualified Small Business Payroll Tax Credit for Increasing Research Activities NOTE: For ease of reference, this credit will generally be referred to as the "QSB Research Credit" throughout this IRM. CAUTION: IRN 119 is only valid for Form 941 tax periods 201706 and later or for Form 943 and Form 944 tax periods 201712 and later.
CREDIT REFERENCE NUMBER (CRN)	
299	COBRA premium assistance payments. CAUTION: CRN 299 is only valid for tax periods after 200812.
290	Work Opportunity Credit for qualified tax-exempt organizations hiring qualified veterans. CAUTION: This credit is only allowed during the processing of Forms 5884-C. See IRM 21.7.2.5.22, <i>Form 5884-C, Work Opportunity Credit for Qualified Tax-Exempt Organizations Hiring Qualified Veterans</i> for more information.

REMINDER: When adjusting an account, research any Computer Condition Codes (CCC "E" or "S") which may indicate a taxpayer's intent to receive a refund or credit elect. See Section 3 of Document 6209, *IRS Processing Codes and Information*.

IRM 21.7.2.4.1.1 Deleted (2) through (6); former content of those paragraphs has been placed in a new table in (1). New table in (1) also includes revisions required to account for new IRN 119 which will be validated for certain adjustments to employment tax accounts beginning in 2017.

1. The table which follows provides guidance on mathematical validity checks governing IRN usage with adjustments to employment tax returns on Command Code ADJ54:

Tax Form	Tax Periods	29X adjustment must equal
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Form 941	Posting after December 31, 2004 and through tax period 200912	The sum of IRNs 111, 112, and 113
Form 941	Tax periods 201003 through 201012	The sum of IRNs 111, 112, 116, and 113
Form 941	Tax periods 201103 through 201703	The sum of IRNs 111, 112, 114, and 113.
Form 941	Tax periods 201706 and after	The sum of IRNs 111, 112, 114, and 113 less IRN 119.
Form 944	Through tax period 200912	The sum of IRNs 111, 112, and 113
Form 944	Tax period 201012	The sum of IRNs 111, 112, 116, and 113
Form 944	Tax periods 201112 through 201612	The sum of IRNs 111, 112, 114, and 113.
Form 944	Tax periods 201712 and after	The sum of IRNs 111, 112, 114, and 113 less IRN 119.
Form 943	Tax period 201012	The sum of IRNs 003, 007, and 116.
Form 943	Any tax period through 201612 other than for tax period 201012	The sum of IRNs 003 and 007.
Form 943	Tax period 2017 and after	The sum of IRNs 003 and 007 less IRN 119.

NOTE: For any Form 941 or Form 944 adjustment, IRN 113 must equal the sum of IRNs 104 through 110.

CAUTION: For more detailed information on IRN 119 adjustments, see (8) in IRM 21.7.2.5.28, *Form 8974, Qualified Small Business Payroll Tax Credit for Increasing Research Activities*.

IRM 21.7.2.4.4(1) Added new Form 8974 to documents cited.

1. Loose schedules are those that have inadvertently been detached from a return or received from taxpayers without sufficient information to indicate why they have been sent or to allow them to be associated with the proper return. These include, but are not limited to, Schedule B (Form 941), Form 945-A, Schedule D (Form 941) Schedule R (Form 941), and Form 8974, *Qualified Small Business Payroll Tax Credit for Increasing Research Activities*. See the subsections which follow for guidance on handling the most common loose employment tax schedule situations.

IRM 21.7.2.4.4.4 Added new subsection with procedures for handling loose Forms 8974.

1. See IRM 21.7.2.5.28, *Form 8974, Qualified Small Business Payroll Tax Credit for Increasing Research Activities*, for additional information on Form 8974.

NOTE: For ease of reference, the "Qualified Small Business Payroll Tax Credit for Increasing Research Activities" will generally be referred to as the "QSB Research Credit" throughout this IRM.

2. Form 8974 is required to be attached to either an original employment tax return or an adjusted/amended employment tax return as supporting documentation for claims and adjustments to the QSB Research Credit. However, AM may occasionally receive loose Forms 8974 (i.e. not attached to an employment tax form); this will generally result from:
 1. The taxpayer incorrectly filed Form 8974 separate from any other document.
 2. The taxpayer is providing the Form 8974 in response to a request for missing information.
 3. The Form 8974 was inadvertently detached from an original return, an adjusted/amended employment tax form, or correspondence with which it was filed.
 4. The Form 8974 was received in Submission Processing (SP) attached to an original employment tax form but there was no corresponding entry on Line 11 (Form 941). In that filing situation, SP has instructions to detach and route Forms 8974 to AM for handling.
3. When working a loose Form 8974, review the document and research the tax account for which it was filed to determine if the credit claimed was already processed or if there is another case document to which it should be associated (e.g. a Form 941-X case). Continue processing as follows:

If	Then
The loose Form 8974 was filed for an employment tax return period beginning before April 1, 2017 for Form 941 or before January 1, 2017 for Form 943 and Form 944.	Contact the IRM author through your management chain and the site P&A Staff for guidance on handling the case.
The amount of QSB Research Credit claimed on the loose Form 8974 is equal to the amount of credit previously allowed for the tax period identified.	If the Form 8974 was submitted in response to a missing information request on a previous Form 94XX case, take action to associate the new case to the previous case. Otherwise, no action is needed.

The loose Form 8974 reflects a decrease to a previously allowed credit amount (i.e. would result in a tax increase)	1. Input a TC 290 adjustment in Blocking Series 15 for the amount of the QSB Research Credit change along with IRN 119 (for the same amount but as a negative). If appropriate, adjust the FTD penalty (see IRM 20.1.4.21.3, <i>Amended or Supplemental (Tax Decrease or Non-Interest-Free Tax Increase)</i>). 2. Issue Letter 4384C stating we processed the Form 8974 but that in the future changes to previously reported QSB Research Credit amounts must be corrected by filing an amended return (specify form) with Form 8974 attached.
The loose Form 8974 reflects an increase to a previously allowed credit amount or no credit was previously claimed (i.e. would result in tax decrease)	Reject the Form 8974 using Letter 4384C and inform the taxpayer they must file the appropriate X form (identify the specific form to be used) to make the adjustment. NOTE: If the Form 8974 is missing information that would be required for processing (see (10) in IRM 21.7.2.5.28, <i>Form 8974, Qualified Small Business Payroll Tax Credit for Increasing Research Activities</i>), identify the specific items requiring perfection in the letter.



CAUTION: When rejecting documents, extreme care must be taken to ensure that only the material relative to the taxpayer(s) to which the correspondence is addressed is enclosed in the envelope. See IRM 21.3.3.4.25, *Breaches of Personally Identifiable Information (PII) Caused by Manual Stuffing Errors*, for additional information.

IRM 21.7.2.4.6.4.1(1) Added exception and cross reference relative to the new non-refundable credit applicable to Form 941, Form 943, and Form 944.

1. For a refund or credit of ONLY the employer portion of FICA tax, a **certification must be present** on the appropriate Form 94XX indicating the employer has attempted to locate the employee(s) involved to repay or reimburse them in the amount of the overcollection, or to obtain their consent to the filing of the claim, but that the attempt was unsuccessful or the employee(s) would not provide consent.

EXCEPTION: This certification requirement does not apply if the only change being made is to the amount of QSB Research Credit claimed. While the allowable amount of any QSB Research Credit is limited to the employer's share of social security tax, there are no employee tax implications which result from adjustments to the QSB Research Credit. See IRM 21.7.2.5.28, *Form 8974, Qualified Small Business Payroll Tax Credit for Increasing Research Activities* for guidance on processing QSB Research Credit adjustment requests.

REMINDER: Additional Medicare Tax (AdMT) is only imposed on the employee. There is no employer share of AdMT.

IRM 21.7.2.4.7.6(3) Added row to table for new IRN 119.

3. Use the applicable reference numbers to adjust tax, wages, and advance earned income tax credit (AEITC) on employment tax returns. The following table shows the valid reference numbers for Form 941-X.

Item Reference Number (IRN)	Explanation
111	Federal income tax withheld from wages, tips, and other compensation (line 7 of Form 941-X - column 4).
004	Taxable social security wages (line 8 of Form 941-X -

	column 3 plus line 15 of Form 941-X - column 3).
005	Taxable social security tips (line 9 of Form 941-X - column 3).
073	Taxable Medicare wages and tips (line 10 of Form 941-X - column 3 plus line 16 of Form 941-X - column 3).
074	Taxable Wages & tips subject to Additional Medicare Tax withholding (line 11 of Form 941-X - column 3 plus line 17 of Form 941-X - column 3) (valid for tax periods beginning after December 31, 2012).
112	Total social security, Medicare tax, and (for tax periods beginning after December 31, 2012) Additional Medicare Tax.
114	Section 3121(q) Notice and Demand — Tax due on unreported tips (line 12 of Form 941-X - column 4). Only for MFT 01 tax periods 201103 and after.
104	Income tax withheld figured at IRC Section 3509 tax rate on Special addition to wages for federal income tax (line 14 of Form 941-X - column 4).
105	Social security, Medicare taxes, and (for tax periods beginning after December 31, 2012) Additional Medicare taxes figured at IRC Section 3509 tax rates on Special addition to wages for social security taxes, Special addition to wages for Medicare taxes, and Special addition to wages for Additional Medicare Tax (total of lines 15, 16, and 17 from Form 941-X - column 4).
106/107/108	Tax adjustments (line 13 of Form 941-X - column 4). See IRN 113 and Note below table.
113	Total adjustments (total of lines 13, 15, 16, 17, and 18 of Form 941-X - column 4). See IRN 106/107/108 above and Note below table. REMINDER: IRN 113 must be used when adjusting IRNs 104 through 108.
119	Qualified Small Business Payroll Tax Credit for Increasing Research Activities (line 14 of Form 941-X - column 4). NOTE: For ease of reference, this credit will generally be referred to as the "QSB Research Credit" throughout this IRM. CAUTION: For Form 941, IRN 119 is only valid for tax periods 201706 and later.
Credit Reference Number (CRN)	

299	COBRA premium assistance payments (line 20a of Form 941-X - column 4).
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NOTE: Use Item reference numbers 106, 107, and 108 to adjust any corrections a taxpayer may have for lines 7, 8, and 9 on Form 941. If Form 941-X does not specify what is actually being corrected, use IRN 107 for total amount on line 13 - column 4. See IRM 21.7.2.4.1 for additional information on IRN's.

CAUTION: Form 941-X is revised on a regular basis and line numbers for particular adjustment items occasionally change. However, there is no requirement for the taxpayer to use the most current version of Form 941-X. Although line numbers are provided in the table above for easy reference, employees are responsible for ensuring the proper adjustment action is taken based on the form version filed by the taxpayer.

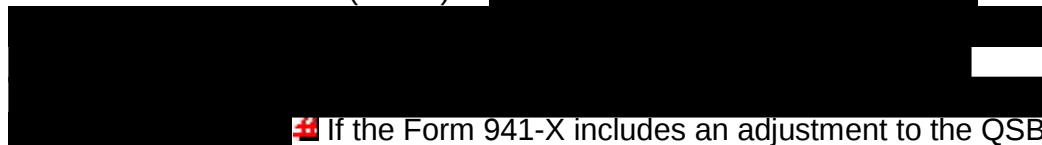
NOTE: Lines for HIRE Act related adjustment items have been removed from the current Form 941-X version. See IRM 21.7.2.5.20.1, *Adjusting the Account — HIRE* if information is needed regarding adjustments for HIRE Act items on tax year 2010 (only).

REMINDER: AEITC was legislatively eliminated for tax periods after 201012. Lines for this adjustment item have been removed from the current Form 941-X version. See IRM 21.7.2.4.3, *Advance Earned Income Tax Credit (AEITC) — Form 941, Form 943, Form 944, and Schedule H*, if information is needed regarding adjustments for AEITC on tax periods 201012 and earlier.

NOTE: Although CRN 290 is valid for MFT 01, this credit cannot be claimed or adjusted by filing a Form 941-X. This credit is only allowed during the processing of Forms 5884-C. See IRM 21.7.2.5.22, *Form 5884-C, Work Opportunity Credit for Qualified Tax-Exempt Organizations Hiring Qualified Veterans*, for more information.

IRM 21.7.2.4.7.6.1(6) Added information and cross reference relative to the new non-refundable credit applicable to Form 941.

6. Math verify adjustments to income tax, social security tax, Medicare tax, and Additional Medicare Tax (AdMT). 



 If the Form 941-X includes an adjustment to the QSB Research Credit, also see IRM 21.7.2.5.28, *Form 8974, Qualified Small Business Payroll Tax Credit for Increasing Research Activities*, for additional processing and verification requirements.

IRM 21.7.2.4.7.6.2(5) Added information and cross reference relative to the new non-refundable credit applicable to Form 941.

5. Math verify adjustments to income tax withholding, social security tax, Medicare tax, and Additional Medicare Tax (AdMT). #

[REDACTED]

If the Form 941-X includes an adjustment to the QSB Research Credit, also see IRM 21.7.2.5.28, *Form 8974, Qualified Small Business Payroll Tax Credit for Increasing Research Activities*, for additional processing and verification requirements.

IRM 21.7.2.4.7.6.3(4) Added information and cross reference relative to the new non-refundable credit applicable to Form 941.

4. Math verify adjustments to income tax withholding, social security tax, Medicare tax, and Additional Medicare Tax (AdMT). #

[REDACTED]

If the Form 941-X includes an adjustment to the QSB Research Credit, also see IRM 21.7.2.5.28, *Form 8974, Qualified Small Business Payroll Tax Credit for Increasing Research Activities*, for additional processing and verification requirements.

IRM 21.7.2.4.8(6) Revised cross reference information to account for changes being made to content in IRM 21.7.2.4.1.1.

6. See (3) of IRM 21.7.2.4.8.3, *Form 943-X, Adjusted Employer's Annual Tax Return for Agricultural Employees or Claim for Refund (including Form 943-X (PR))*, for valid IRN's and CRN's used to adjust Form 943 accounts. Also see the table in (1) of IRM 21.7.2.4.1.1, *TC 29X / Item Reference Number (IRN) Valid Adjustment Formulas — Employment Taxes*, for valid Form 943 adjustment formulas.

IRM 21.7.2.4.8.3(3) Added row to table for new IRN 119.

3. Item Reference Numbers (IRNs) valid for Form 943-X are:

Item Reference Number (IRN)	Explanation
004	Total wages subject to social security tax (line 6 of Form 943-X - column 3 plus line 12 of Form 943-X - column 3).
073	Taxable Medicare wages and tips (line 7 of Form 943-X - column 3 plus line 13 of Form 943-X - column 3).
074	Taxable Wages & tips subject to Additional Medicare Tax withholding (line 8 of Form 943-X - column 3 plus line 14 of Form 943-X - column 3). Valid for tax periods beginning after December 31, 2012.
007	Total social security, Medicare tax, and (for tax periods beginning after December 31, 2012) Additional Medicare Tax (combined figures in column 4 of Form 943-X - lines 6, 7, 8, 12, 13, and 14).
003	Federal income tax withheld (line 9 of Form 943-X - column 4 plus line 11 of Form 943-X - column 4).
185	Tax adjustments (line 10 of Form 943-X - column 4). For tax periods after 200812, IRN 185 is only used on Form 943 adjustments for fractions of cents and third party sick pay.
119	Qualified Small Business Payroll Tax Credit for Increasing Research Activities NOTE: For ease of reference, this credit will generally be referred to as the "QSB Research Credit" throughout this IRM. CAUTION: For Form 943, IRN 119 is only valid for tax periods 201712 and later.
Credit Reference Number (CRN)	
299	COBRA premium assistance payments (line 16a of Form 943-X - column 4).

CAUTION: Form 943-X is revised on a regular basis and line numbers for particular adjustment items occasionally change. However, there is no requirement for the taxpayer to use the most current version of Form 943-X. Although line numbers are provided in the table above for easy reference, employees are responsible for ensuring the proper adjustment action is taken based on the form version filed by the taxpayer.

NOTE: Lines for HIRE Act related adjustment items have been removed from the current Form 943-X version. See IRM 21.7.2.5.20.1, *Adjusting the Account — HIRE* if information is needed regarding adjustments for HIRE Act items on tax year 2010 (only).

REMINDER: AEITC was legislatively eliminated for tax periods after 201012. See IRM 21.7.2.4.3, *Advance Earned Income Tax Credit (AEITC) — Form 941, Form 943, Form 944, and Schedule H*, if information is needed regarding adjustments for AEITC on tax periods 201012 and earlier.

CAUTION: Although CRN 290 is valid for MFT 11, this credit cannot be claimed or adjusted by filing a Form 943-X. This credit is only allowed during the processing of Forms 5884-C. See IRM 21.7.2.5.22, *Form 5884-C, Work Opportunity Credit for Qualified Tax-Exempt Organizations Hiring Qualified Veterans*, for more information.

IRM 21.7.2.4.8.3.1(6) Added information and cross reference relative to the new non-refundable credit applicable to Form 943.

6. Math verify adjustments to income tax withholding, social security tax, Medicare tax, and Additional Medicare Tax (AdMT). # [REDACTED]
[REDACTED] If the Form 941-X includes an adjustment to the QSB Research Credit, also see IRM 21.7.2.5.28, *Form 8974, Qualified Small Business Payroll Tax Credit for Increasing Research Activities*, for additional processing and verification requirements.

IRM 21.7.2.4.8.3.2(5) Added information and cross reference relative to the new non-refundable credit applicable to Form 943.

5. Math verify adjustments to income tax, social security tax, Medicare tax, and Additional Medicare Tax (AdMT). # [REDACTED]
[REDACTED] If the Form 941-X includes an adjustment to the QSB Research Credit, also see IRM 21.7.2.5.28, *Form 8974, Qualified Small Business Payroll Tax Credit for Increasing Research Activities*, for additional processing and verification requirements.

IRM 21.7.2.4.8.3.3(4) Added information and cross reference relative to the new non-refundable credit applicable to Form 943.

4. Math verify adjustments to income tax withholding, social security tax, Medicare tax, and Additional Medicare Tax (AdMT). # [REDACTED]
[REDACTED]

 If the Form 941-X includes an adjustment to the QSB Research Credit, also see IRM 21.7.2.5.28, *Form 8974, Qualified Small Business Payroll Tax Credit for Increasing Research Activities*, for additional processing and verification requirements.

IRM 21.7.2.4.9.4(3) Added row to table for new IRN 119.

3. Refer to the table below for valid item reference numbers for Form 944-X.

Item Reference Number	Explanation
111	Federal income tax withheld from wages, tips, and other compensation (line 7 of Form 944-X - column 4).
004	Taxable social security wages (line 8 of Form 944-X - column 3 plus line 14 of Form 944-X - column 3).
005	Taxable social security tips (line 9 of Form 944-X - column 3).
073	Taxable Medicare wages and tips (line 10 of Form 944-X - column 3 plus line 15 of Form 944-X - column 3).
074	Taxable Wages & tips subject to Additional Medicare Tax withholding (valid for tax periods beginning after December 31, 2012) (line 11 of Form 944-X - column 3 plus line 16 of Form 944-X - column 3).
112	Total social security, Medicare tax, and Additional Medicare Tax (for tax periods beginning after December 31, 2012).
106	Tax adjustments (line 12 of Form 944-X - column 4).
104	Income tax withheld figured at IRC Section 3509 tax rate on Special addition to wages for federal income tax (line 13 of Form 944-X - column 4).
105	Social security, Medicare taxes, and (for tax periods beginning after December 31, 2012) Additional Medicare taxes figured at IRC Section 3509 tax rates on Special addition to wages for social security taxes, Special addition to wages for Medicare taxes, and Special addition to wages for Additional Medicare Tax (total of lines 14, 15, and 16 from Form 944-X - column 4).
113	Total adjustments (total of lines 12, 13, 14, 15 and 16 of Form 944-X - column 4). REMINDER: IRN 113 must be used when adjusting IRNs 104 through 106.

119	Qualified Small Business Payroll Tax Credit for Increasing Research Activities NOTE: For ease of reference, this credit will generally be referred to as the "QSB Research Credit" throughout this IRM. CAUTION: For Form 944, IRN 119 is only valid for tax periods 201712 and later.
Credit Reference Numbers (CRN)	
299	COBRA premium assistance payments (line 18a of Form 944-X - column 4).

CAUTION: Form 944-X is revised on a regular basis and line numbers for particular adjustment items occasionally change. However, there is no requirement for the taxpayer to use the most current version of Form 944-X. Although line numbers are provided in the table above for easy reference, employees are responsible for ensuring the proper adjustment action is taken based on the form version filed by the taxpayer.

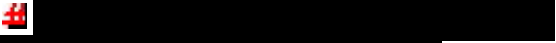
NOTE: See IRM 21.7.2.4.1 for additional requirements with specific item reference numbers.

NOTE: Lines for HIRE Act related adjustment items have been removed from the current Form 941-X version. See IRM 21.7.2.5.20.1, *Adjusting the Account — HIRE* if information is needed regarding adjustments for HIRE Act items on tax year 2010 (only).

REMINDER: AEITC was legislatively eliminated for tax periods after 201012. Lines for this adjustment item have been removed from the current Form 941-X version. See IRM 21.7.2.4.3, *Advance Earned Income Tax Credit (AEITC) — Form 941, Form 943, Form 944, and Schedule H*, if information is needed regarding adjustments for AEITC on tax periods 201012 and earlier.

CAUTION: Although CRN 290 is valid for MFT 14, this credit cannot be claimed or adjusted by filing a Form 944-X. This credit is only allowed during the processing of Forms 5884-C. See IRM 21.7.2.5.22, *Form 5884-C, Work Opportunity Credit for Qualified Tax-Exempt Organizations Hiring Qualified Veterans*, for more information.

IRM 21.7.2.4.9.4.1(6) Added information and cross reference relative to the new non-refundable credit applicable to Form 944.

6. Math verify adjustments to income tax, social security tax, Medicare tax, and Additional Medicare Tax (AdMT). 

[REDACTED] If the Form 941-X includes an adjustment to the QSB Research Credit, also see IRM 21.7.2.5.28, *Form 8974, Qualified Small Business Payroll Tax Credit for Increasing Research Activities*, for additional processing and verification requirements.

IRM 21.7.2.4.9.4.2(5) Added information and cross reference relative to the new non-refundable credit applicable to Form 944.

5. Math verify adjustments to income tax, social security tax, Medicare tax, and Additional Medicare Tax (AdMT). [REDACTED] If the Form 941-X includes an adjustment to the QSB Research Credit, also see IRM 21.7.2.5.28, *Form 8974, Qualified Small Business Payroll Tax Credit for Increasing Research Activities*, for additional processing and verification requirements.

IRM 21.7.2.4.9.4.3(4) Added information and cross reference relative to the new non-refundable credit applicable to Form 944.

4. Math verify adjustments to income tax withholding, social security tax, Medicare tax, and Additional Medicare Tax (AdMT). [REDACTED] If the Form 941-X includes an adjustment to the QSB Research Credit, also see IRM 21.7.2.5.28, *Form 8974, Qualified Small Business Payroll Tax Credit for Increasing Research Activities*, for additional processing and verification requirements.

IRM 21.7.2.5.28 Revised title to add form number. Revised and updated content to add processing instructions for new Form 8974.

Form 8974, Qualified Small Business Payroll Tax Credit for Increasing Research Activities

1. Section 121(a) of the Protecting Americans from Tax Hikes (PATH) Act of 2015, Division Q of P.L. 114-113 permanently extended the Credit for Increasing Research Activities. This non-refundable credit is generally used

- to reduce federal income tax liability and is claimed by completing Form 6765, *Credit for Increasing Research Activities*, and Form 3800, *General Business Credit*, which are attached to an income tax return. See IRM 21.7.4.4.8.3.4, *Form 6765, Credit for Increasing Research Activities*, for more information.
2. Section 121(c) of the Act also added IRC Section 41(h) and IRC Section 3111(f) which allow qualified small businesses to elect to claim a portion of the income tax credit for increasing research activities as a payroll tax credit against the employer portion of social security tax. The payroll tax credit is in lieu of an income tax credit and is also non-refundable. Qualified small businesses elect the payroll tax credit on Form 6765. Once made, the election may only be revoked with the consent of the IRS.

NOTE: For ease of reference, the "Qualified Small Business Payroll Tax Credit for Increasing Research Activities" will generally be referred to as the "QSB Research Credit" throughout this IRM.

3. Form 8974, *Qualified Small Business Payroll Tax Credit for Increasing Research Activities*, was created to enable taxpayers to compute the amount of QSB Research Credit that they are eligible to claim on an employment tax return for a particular tax period. Form 8974 must be attached as supporting documentation to any original employment tax return on which the credit is claimed and to any Form 94XX filed to claim or adjust a QSB Research Credit.

NOTE: See IRM 21.7.2.4.4.4, for guidance on handling loose Forms 8974.

4. An eligible taxpayer must file their income tax return with Form 6765 attached reflecting the binding election **before** they can claim the QSB Research Credit on an employment tax return with Form 8974. The QSB Research Credit can then be claimed starting with the first employment tax return filed reporting wages and tax for a calendar quarter beginning **after** the income tax return was filed.

EXAMPLE: On March 10, 2017, a taxpayer files their Form 1120 for calendar year 2016 with Form 6765 attached reflecting an election to claim an amount for the QSB Research Credit on their employment tax returns. The taxpayer files quarterly Form 941 to report employment taxes. The taxpayer may first claim the QSB Research Credit on their Form 941 for the second quarter of 2017 since that tax period begins April 1, 2017 which is after the filing date of the income tax return.

EXAMPLE: On July 17, 2017, a taxpayer files their Form 1120 for calendar year 2016 with Form 6765 attached reflecting an election to claim an amount for the QSB Research Credit on their employment tax returns. The taxpayer files quarterly Form 941 to report employment taxes. The taxpayer may first claim the QSB Research Credit on their Form 941 for the fourth quarter of 2017 since that tax period begins October 1, 2017 which is after the filing

date of the income tax return.

EXAMPLE: On August 6, 2017, a taxpayer files their Form 1120 for calendar year 2016 with Form 6765 attached reflecting an election to claim an amount for the QSB Research Credit on their employment tax returns. The taxpayer files annual Form 943 to report employment taxes. The taxpayer may first claim the QSB Research Credit on their Form 943 for calendar year 2017 since that return includes the fourth calendar quarter of 2017 which begins after the filing date of the income tax return.

EXAMPLE: On November 3, 2017, a taxpayer files their Form 1120 for calendar year 2016 with Form 6765 attached reflecting an election to claim an amount for the QSB Research Credit on their employment tax returns. The taxpayer files annual Form 944 to report employment taxes. Since the Form 1120 was filed during the last calendar quarter of 2017, the taxpayer may first claim the QSB Research Credit on their Form 944 for calendar year 2018.

5. The first full calendar year income tax return on which an eligible taxpayer could make an election to claim the QSB Research Credit against employment taxes was 2016. Due to the timing of the required filings (see (4) above), the earliest those taxpayers could claim the QSB Research Credit on an employment tax return will be a Form 941 filed for the second quarter of 2017. Computer functionality and the handling procedures which follow are based on that standard filing scenario. However, there are some less common filing scenarios where an eligible taxpayer could in fact claim the QSB Research Credit against the employer's share of social security tax for a period earlier than the second quarter of 2017. Accordingly, if a claim (on an employment tax return, Form 94XX, Form 843, loose Form 8974, or correspondence) for the QSB Research Credit is received in Accounts Management for an employment tax return period beginning earlier than April 1, 2017 for Form 941 or January 1, 2017 for Form 943 and Form 944, contact the IRM author through your management chain and the site P&A Staff for guidance on handling the case.
6. The QSB Research Credit as applied to employment taxes is a non-refundable credit taken against the employer's share of social security taxes.
7. Because the QSB Research Credit that can be claimed on any particular tax period is limited to the employer's share of social security taxes, some taxpayers may not be able to fully utilize the total QSB Research Credit to which they are entitled on a single employment tax return period. Such taxpayers will be able to carry any unused QSB Research Credit to succeeding tax periods. Accordingly, Lines 6 and 7 of Form 8974 are used by the taxpayer to report previously claimed and remaining available QSB Research Credit amounts.
8. IRN 119 will be validated for Form 941 (tax period 201706 and subsequent), Form 943 (tax period 201712 and subsequent), and Form 944 (tax period 201712 and subsequent) to record adjustments to the QSB Research Credit. IRN 119 will be able to be combined on Command Code ADJ54 adjustments with any other valid IRN for those forms.

- o An increase to the credit will be recorded with a positive IRN 119 amount and a corresponding decrease to tax (i.e. a TC 291 for the same amount if no other changes were reported).
- o A decrease to the credit will be recorded with a negative IRN 119 amount and a corresponding increase to tax (i.e. a TC 290/298 for the same amount if no other changes were reported).

EXAMPLE: A Form 941-X is filed with Form 8974 attached claiming an increase to the QSB Research Credit in the amount of \$75. Assuming all processing requirements are met, the adjustment to be made would be a TC 291 for \$75.00- and an IRN 119 for \$75.00.

EXAMPLE: A Form 941-X is filed with Form 8974 attached reporting a decrease to the QSB Research Credit in the amount of \$90. Assuming all processing requirements are met, the adjustment to be made would be a TC 290 (or TC 298 as applicable) for \$90.00 and an IRN 119 for \$90.00-.

EXAMPLE: A Form 941-X is filed with Form 8974 attached claiming an increase to the QSB Research Credit in the amount of \$50. The Form 941-X also reports social security and Medicare wage increases of \$1,000 each and a corresponding increase to social security and Medicare taxes in the amount of \$153.00. Assuming all processing requirements are met, the adjustment to be made would be a TC 290 (or TC 298 as applicable) for \$103.00, an IRN 004 for \$1,000.00, an IRN 073 for \$1,000, an IRN 112 for \$153.00 and an IRN 119 for \$50.00.

9. An increase to the credit (i.e. decrease to tax) may meet examination criteria. See Exhibit 21.5.3-2 , *Examination Criteria (CAT-A) — General*.



10. On occasion, a taxpayer may submit a Form 94XX (or employment tax return) with an entry for the QSB Research Credit but fail to attach Form 8974 as required. Handle missing Form 8974 situations as follows:

If	And	Then
The entry on Form 94XX (or employment tax return) is equal to the amount of credit previously allowed for the tax		A Form 8974 is not required. Continue to process the Form 94XX (or employment tax return) as appropriate.

period identified.		
The entry on Form 94XX (or employment tax return) reflects a decrease to a previously allowed credit amount (i.e. would result in a tax increase)		1. Continue to process the Form 94XX (or employment tax return) as appropriate and complete the change to the QSB Research Credit as requested if all other requirements are met. 2. Close the case and issue Letter 4384C stating we processed the adjustment requested on their Form 94XX but that the required Form 8974 was not attached. Instruct the taxpayer to submit the missing Form 8974. NOTE: A taxpayer response with the missing Form 8974 will be treated as a new case.
The entry on Form 94XX (or employment tax return) reflects an increase to a previously allowed credit amount or no credit was previously claimed (i.e. would result in tax decrease)	The Form 94XX (or employment tax return) also reflects other tax changes	1. Continue to process the other changes reported Form 94XX (or employment tax return) as appropriate but do not allow the requested change to the QSB Research Credit. 2. Follow partial disallowance procedures in IRM 21.5.3.4.6.1, <i>Disallowance and Partial Disallowance Procedures</i>, including

		issuing the appropriate Letter 106C. Advise the taxpayer that we processed the other changes requested but could not allow the QSB Research Credit change because the required Form 8974 was not attached. #  #
The entry on Form 94XX (or employment tax return) reflects an increase to a previously allowed credit amount or no credit was previously claimed (i.e. would result in tax decrease)	The change to the QSB Research Credit is the only correction being made	Reject the Form 94XX using Letter 4384C. Inform the taxpayer Form 8974 must be attached to their Form 94XX (specify form) when changes are requested to amounts of QSB Research Credit claimed. #  #

CAUTION: When rejecting documents, extreme care must be taken to ensure that only the material relative to the taxpayer(s) to which the correspondence is addressed is enclosed in the envelope. See IRM 21.3.3.4.25, *Breaches of Personally Identifiable Information (PII) Caused by Manual Stuffing Errors*, for additional information.

11. In addition to all other verification requirements applicable to the Form 94XX (or original tax return) to which a Form 8974 is attached, the following items are required to be verified on Form 8974 prior to processing:

1. Name, address, and EIN.
2. Type of employment tax return being corrected.
3. Calendar year and quarter (if applicable) being corrected.
4. Verify the income tax return identified by the taxpayer in Part 1 of Form 8974 has been filed.

NOTE: If the income tax return has not posted and the date entered on Line 3 of Form 8974 is less than 30 days prior to the received date of the Form 8974, suspend the case for 40 days and monitor for posting of the income tax return. If the return posts, continue to process as appropriate. If the date entered is 30 days or more from the received date of the Form 8974, or the suspense period has passed and no income tax return is posted, follow the instructions in (12) below to reject the Form 94XX and Form 8974 with instructions to refile their QSB Research Credit claim after they file their income tax return.

5. Verify the Form 8974 has been filed for an employment tax period covering a calendar quarter that began **after** the income tax return identified in Part 1 of Form 8974 was filed. See (4) above for guidance.

NOTE: If the Form 8974 was filed for an employment tax period before what is permitted based on when the identified income tax return was filed, follow procedures in IRM 21.5.3.4.6.3, *No Consideration Procedures* and instruct the taxpayer to refile their QSB Research Credit claim for the appropriate tax period.

6. Verify the figures reported on Line 8 and Line 9 in Part 2 of Form 8974 agree with the amounts on the corresponding line of the Form 94XX (or employment tax return).
7. Math verify Lines 8 through 11 of Form 8974 to ensure the amount of QSB Research Credit claimed does not exceed the employer share of social security tax.

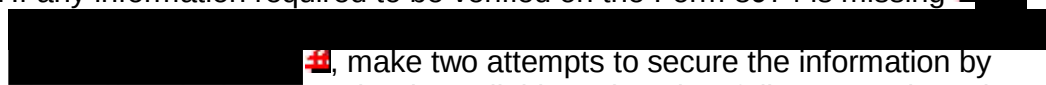




8. Verify the figure reported on Line 12 of Form 8974 is the lesser of the entry on Line 7 or the math verified amount for 11 and agrees with the amount reported for the QSB Research Credit claimed on the corresponding line of the Form 94XX (or employment tax return). If the Line 12 entry, or the corresponding figure on the Form 94XX (or employment tax return), exceeds the lesser of the Line 7 or verified Line 11 amounts , only the verified amount is to be allowed.

NOTE: In this situation, it will be necessary to follow partial disallowance procedures in IRM 21.5.3.4.6.1, *Disallowance and Partial Disallowance Procedures*, including issuing the appropriate Letter 106C.

12. If any information required to be verified on the Form 8974 is missing 

 , make two attempts to secure the information by phone if a telephone number is available. Otherwise, follow procedures in IRM 21.5.3.4.2, *Tax Decrease or Credit Increase Processing*. Use Letter 4384C to reject the claim and identify the missing information in the letter.

EXCEPTION: Do not contact the taxpayer to request a missing income tax return. See the Note after Step 4 in (11) above.

CAUTION: The individual contacted by phone must be authorized to prepare taxpayer's employment tax returns. Document the case history with the date, time, name of individual contacted, and information obtained from the individual.

13. After applying the verification procedures in (11) and (12) above, continue processing complete QSB Research Credit claims and requests for adjustment as per the general procedures in IRM 21.7.2.4.6 and the specific procedures applicable to the type of Form 94XX filed (e.g., for a tax decrease - claim for refund filed on Form 941-X, follow IRM 21.7.2.4.7.6.2, *Form 941-X Tax Decrease — Claim*).

EXCEPTION: If the Form 8974 is attached to an original return filed in response to a 6020(b) assessment, continue processing per handling guidance in IRM 21.7.9.4.1.6, *Duplicate Filing Conditions Involving Returns Prepared Under IRC Section 6020(b)*.

REMINDER: See IRM 21.7.2.4.4.4, for guidance on handling loose Forms 8974.