

# Anchin Alert

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## **New Research Credit Directive Provides Safe Harbor for Taxpayers That Expense R&D Costs on Audited Financial Statements**

The Large Business and International (LB&I) division of the IRS recently released guidance that will allow taxpayers to take advantage of a new safe harbor under which an adjusted amount of their ASC 730 R&D costs can be deemed qualified research expenses (QRE) for the purpose of claiming the Section 41 research tax credit. The directive essentially defines a safe harbor methodology for determining a category of QREs that will not be challenged by the IRS. If a taxpayer complies with requirements of the directive, the LB&I examiners will not challenge those QRE amounts for the credit year, reducing the administrative burden on both the taxpayer and the IRS.

To qualify for the safe harbor, an LB&I taxpayer (i.e., assets equal to or greater than \$10 million) must report as a line item or as a footnote disclosure in its certified audited financial statements, the amount of R&D expense pursuant to ASC 730. LB&I taxpayers may choose to follow the terms of the directive on original returns timely filed (including extensions) on or after the date of the directive.

Taxpayers choosing to follow the directive may still claim additional QRE from expenses outside those eligible for safe harbor treatment, but those expenses will be subject to risk assessment and possible IRS examination.

For more information, please contact Yair Holtzman, Partner and Practice Leader of Anchin's Research and Development Tax Credits Group at 914.860.5599 or via email at [yair.holtzman@anchin.com](mailto:yair.holtzman@anchin.com).



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