

The Ins and Outs of the R&D Tax Credit

What You Need to Know for 2026



BECAUSE TODAY IS DIFFERENT

Improve your SME User Experience, get the Visibility & Control you need, with Less Work for everyone involved.



AI for R&D: Collaboration Forum

For: Tax Technology & AI Users

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Best Practice Roundtable

Wednesday, February 18, 2026
12:00 pm EST

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We are a more INNOVATIVE alternative to the Big Four.

Today's Agenda



Jason Massie, CPA, ESQ.
MASSIE
Founder/President



Matthew Lerner, ESQ.
Sidley Austin
Tax Partner



Taylor Eiselin
MASSIE
Senior Business Development Manager



<i>9:00-9:50 a.m.</i>	Best Practice Updates for your R&D tax credit studies	Jason Massie
<i>9:50-10:00 a.m.</i>	<i>Break</i>	
<i>10:00-10:50 a.m.</i>	Enforcement in Transition: Strategies for 2026	Matthew Lerner
<i>10:50-11:00 a.m.</i>	<i>Break</i>	
<i>11:00-11:50 a.m.</i>	Let Your Technology Work for You	Taylor Eiselin
<i>11:50-12:30 p.m.</i>	<i>Lunch</i>	



2026 Updates

Jason Massie Founder/President

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 **MASSIE** R&D Tax Credits
Experience Best Practices



EXECUTIVE SUMMARY

2026 Updates

- ✔ Business Components are the focus.
- ✔ Activity-level information is required to prove the 80% process of experimentation test.
- ✔ IRS prefers documentation over interview notes.



Agenda- 2026 Updates

✓ What is new with the research credit

- Update for States
- Form 6765

✓ IRS Business Component Focus

- Tangible Products
- Software
- Activity-Level Information

✓ Interviews and Write-Ups

- IRS Preference
- Evidence Based- Product Development Lifecycle

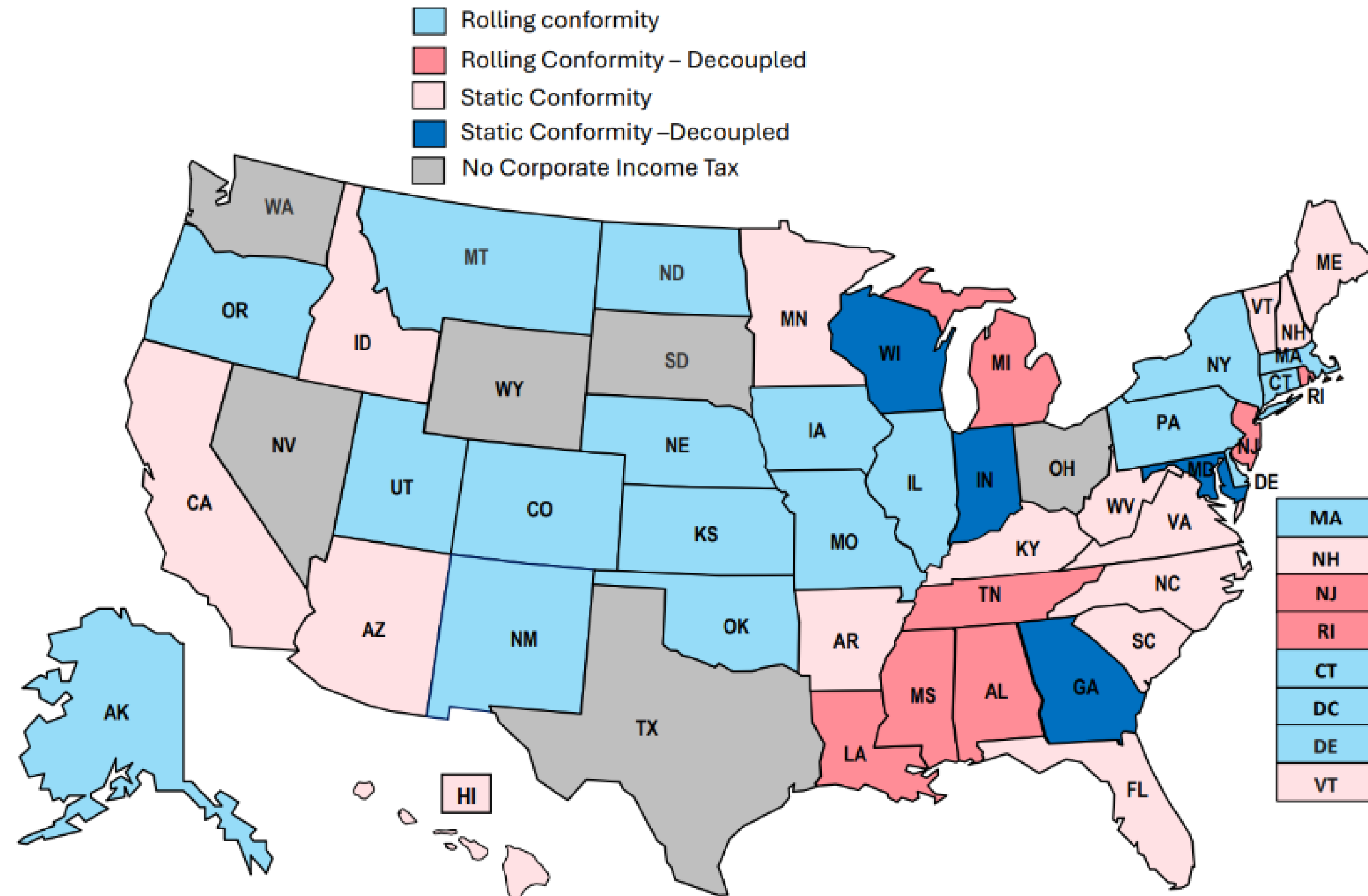
✓ Kyocera Case Example



State Conformity with OBBBA- Section 174



State Conformity with OBBBA – Sec. 174* (Research & Experimental Expenditures)



Alabama: Alabama uses IRC § 174, as it existed in 2021.

Arkansas: Arkansas uses IRC § 174 as it existed on 1/1/2019.

California: California uses IRC §174 as it existed on 1/1/2025.

Louisiana: For tax years beginning on or after 1/1/2025 a taxpayer may elect to deduct research and development expenses. The deduction cannot duplicate the amortization taken for federal purposes.

Maryland: Is a static conformity state because if the revenue impact is over \$5 million Maryland it will decouple from the change. It is listed as currently decoupled.

Michigan: MI decoupled from IRC 174 (H.B. 4961 (2025)).

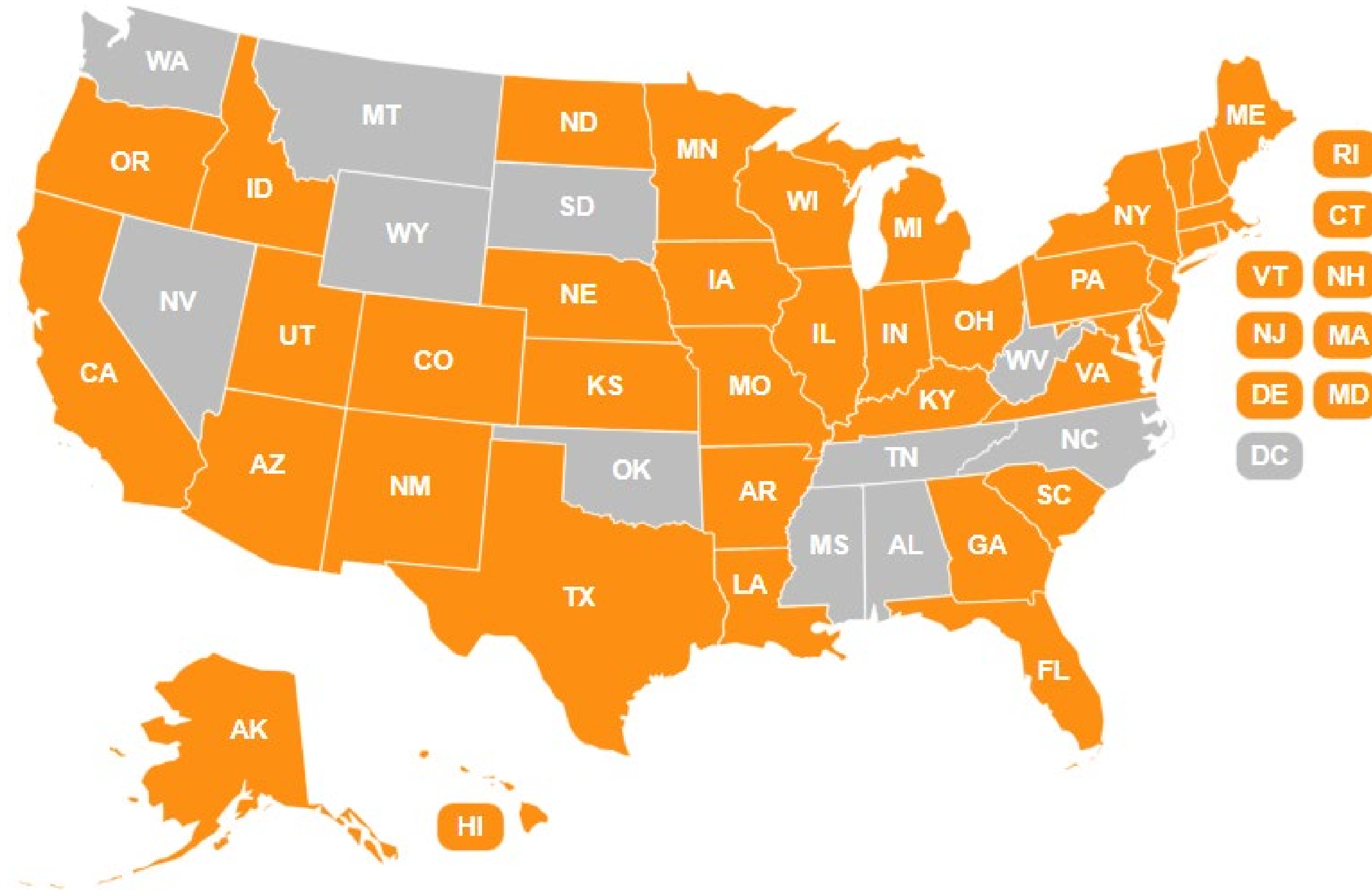
Rhode Island: Rhode Island DOR issued ADV 2025-18 stating it decoupled from IRC § 174.

Tennessee: Tennessee uses I.R.C. § 174 as it existed immediately before the enactment of the Tax Cuts and Jobs Act of 2017.

Virginia: Virginia is a static conformity state because it has halted its rolling conformity status until 2027.

Disclaimer: This information should be used for general guidance and not relied upon for compliance.
Source: Council On State Taxation (COST) – As of October 31, 2025
 * This map incorporated IRC Section 174A

Which States Have R&D Tax Credits?



- ✓ Currently, **39 states** offer an R&D credit that can be claimed in addition to the Federal R&D credit; **11 + D.C.** do not.
- ✓ While many of these state credits are closely aligned to the requirements for the Federal credit, some states choose to implement unique requirements and incentives.
- ✓ Currently, the states that do not offer a state-level R&D income tax credit are:
 - Alabama (incentives exist, though not a traditional credit)
 - Mississippi (employment-based Research and Development Skills Tax Credit available)
 - Montana
 - Nevada
 - North Carolina
 - Oklahoma (R&D Rebate Program)
 - South Dakota
 - Tennessee (franchise and excise tax credit on industrial machinery and certain research and development equipment)
 - Washington
 - West Virginia
 - Wyoming

2025 / 2026 Recent Developments & Updates

Recently, many states have passed legislation impacting their R&D credits, including changes to the value of the benefit and which businesses may qualify.

- ✔ **Connecticut:** Expanded and enhanced R&D credits under H.B. 7287 (effective June 30, 2025). Single-member LLCs may now qualify if they meet specific size and manufacturing criteria, though treatment differs based on federal tax classification.
- ✔ **California:** New ASC election (starting 2025 tax years): California now allows an Alternative Simplified Credit (ASC) method (3% of QREs over 50% of prior 3-year average; 1.3% if no prior QREs), replacing the prior alternative incremental approach.
- ✔ **Iowa:** The state repealed its former Research Activities Credit and replaced it with a new, more stringent application program, effective for the 2026 tax year. Eligibility is restricted to specific industries (e.g., advanced manufacturing, bioscience), and the maximum benefit is reduced.
- ✔ **Massachusetts:** The Department of Revenue has clarified that all business corporations may now use the federal alternative simplified method (ASM) to calculate the state R&D credit on amended returns, a reversal of its previous position that may benefit companies with fluctuating research expenses.

2025 / 2026 Recent Developments & Updates

Recently, many states have passed legislation impacting their R&D credits, including changes to the value of the benefit and which businesses may qualify.

- ✓ **Michigan:** Newly enacted state R&D tax credit.
- ✓ **Minnesota:** Beginning 2025, the R&D credit becomes partially refundable (previously could only carryforward). Refundability set at 19.2% for 2025, increasing to 25% for 2026–2027.
- ✓ **Oklahoma:** No traditional R&D credit, but S.B. 324 (May 2025) created the R&D Rebate Fund and Program. Offers a 5% rebate on QREs, capped at \$20M per fiscal year.
- ✓ **Texas:** S.B. 2206 consolidates Texas's R&D incentives into a single franchise tax credit effective January 1, 2026. Repeals the sales & use tax exemption for R&D equipment. Increases credit rate to 8.722%, with an enhanced 10.903% rate for university-based research. QREs tied directly to IRS Form 6765, Line 48, with rolling IRC conformity.
- ✓ **Virginia:** R&D tax credits have expired for taxable years beginning on or after January 1, 2025.

1981-2023

Form 6765

Form 6765 (Rev. December 2023) Department of the Treasury Internal Revenue Service	Credit for Increasing Research Activities Attach to your tax return. Go to www.irs.gov/Form6765 for instructions and the latest information.	OMB No. 1545-0619 Attachment Sequence No. 676
Name(s) shown on return		Identifying number

Section A—Regular Credit. Skip this section and go to Section B if you are electing or previously elected (and are not revoking) the alternative simplified credit.

1	Certain amounts paid or incurred to energy consortia (see instructions)		1
2	Basic research payments to qualified organizations (see instructions)	2	
3	Qualified organization base period amount	3	
4	Subtract line 3 from line 2. If zero or less, enter -0-		4
5	Wages for qualified services (do not include wages used in figuring the work opportunity credit)	5	
6	Cost of supplies	6	
7	Rental or lease costs of computers (see instructions)	7	
8	Enter the applicable percentage of contract research expenses. See instructions	8	
9	Total qualified research expenses. Add lines 5 through 8	9	
10	Enter fixed-base percentage, but not more than 16% (0.16) (see instructions)	10	%
11	Enter average annual gross receipts. See instructions	11	
12	Multiply line 11 by the percentage on line 10	12	
13	Subtract line 12 from line 9. If zero or less, enter -0-	13	
14	Multiply line 9 by 50% (0.50)	14	
15	Enter the smaller of line 13 or line 14		15
16	Add lines 1, 4, and 15		16
17	Are you electing the reduced credit under section 280C? Yes <input type="checkbox"/> No <input type="checkbox"/> If "Yes," multiply line 16 by 15.8% (0.158). If "No," multiply line 16 by 20% (0.20) and see the instructions for the statement that must be attached. Members of controlled groups or businesses under common control, see instructions for the statement that must be attached		17

Section B—Alternative Simplified Credit. Skip this section if you are completing Section A.

18	Certain amounts paid or incurred to energy consortia (see the line 1 instructions)		18
19	Basic research payments to qualified organizations (see the line 2 instructions)	19	
20	Qualified organization base period amount (see the line 3 instructions)	20	
21	Subtract line 20 from line 19. If zero or less, enter -0-		21
22	Add lines 18 and 21		22
23	Multiply line 22 by 20% (0.20)		23
24	Wages for qualified services (do not include wages used in figuring the work opportunity credit)	24	
25	Cost of supplies	25	
26	Rental or lease costs of computers (see the line 7 instructions)	26	
27	Enter the applicable percentage of contract research expenses. See the line 8 instructions	27	
28	Total qualified research expenses. Add lines 24 through 27	28	
29	Enter your total qualified research expenses for the prior 3 tax years. If you had no qualified research expenses in any one of those years, skip lines 30 and 31	29	
30	Divide line 29 by 6.0	30	
31	Subtract line 30 from line 28. If zero or less, enter -0-	31	
32	Multiply line 31 by 14% (0.14). If you skipped lines 30 and 31, multiply line 28 by 6% (0.06)		32
33	Add lines 23 and 32		33
34	Are you electing the reduced credit under section 280C? Yes <input type="checkbox"/> No <input type="checkbox"/> If "Yes," multiply line 33 by 79% (0.79). If "No," enter the amount from line 33 and see the line 17 instructions for the statement that must be attached. Members of controlled groups or businesses under common control, see instructions for the statement that must be attached		34

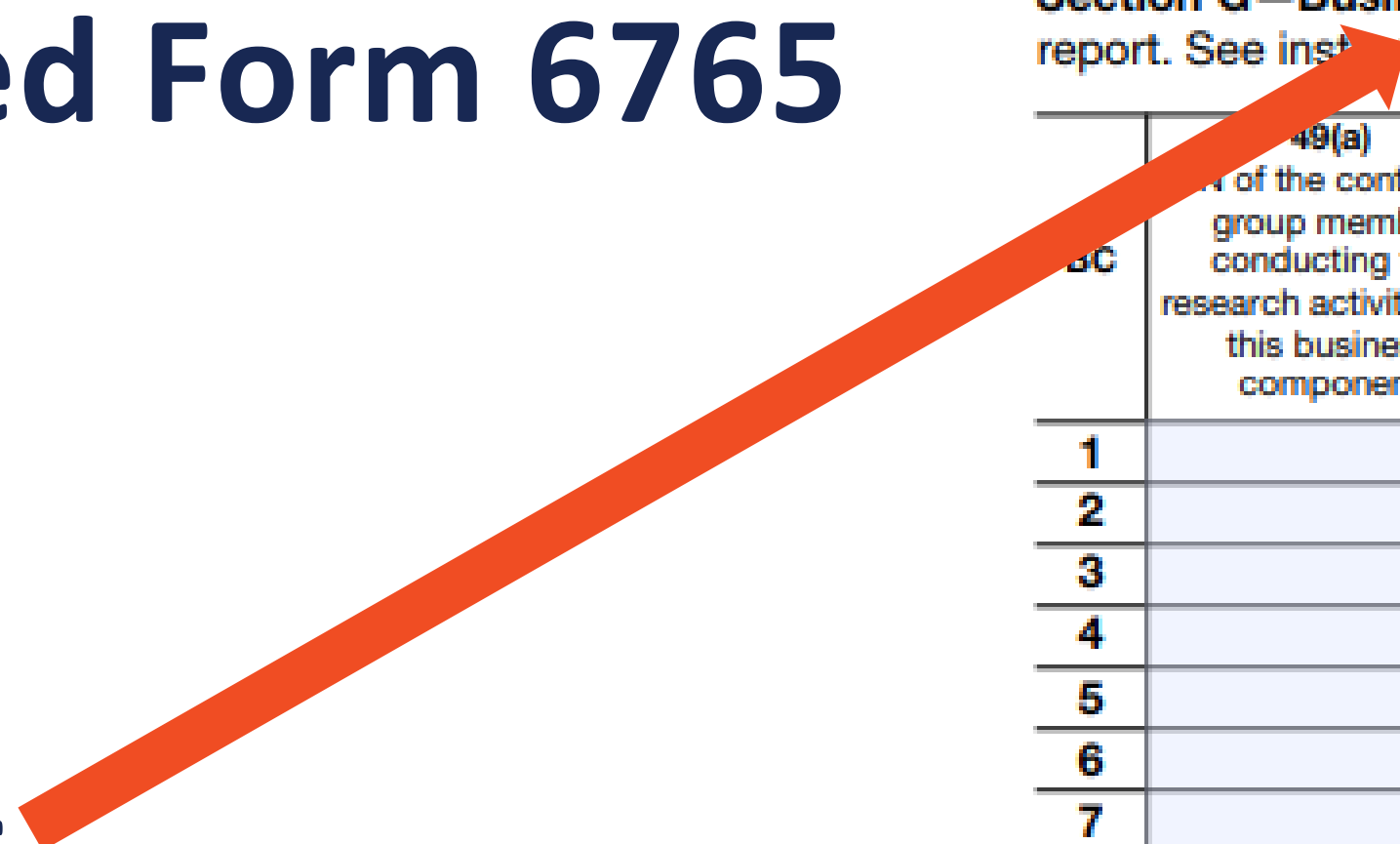
Proposed Form 6765

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) Name 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				
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		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		

Business Component



Proposed Form 6765 Changes

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				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
Total from attachments				
Total				

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			
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
Total from attachments			
Total			

What is a Business Component?

- ✔ IRC Section 41(d)(2)(B). New or Improved Product, Process, Computer Software, Technique, Formula, Invention (i) held for sale, lease, or license, or (ii) used by the taxpayer in a trade or business.
- ✔ 41(d)(2)(A). Four-part test must be applied separately to each business component.
 - If requirements are not met at the level of the entire product or item, they are applied at the most significant subset of elements (the “shrinking-back” rule) or business.
- ✔ The IRS examination of a taxpayer’s claim begins with the **business components** the taxpayer alleges had **research activities** that satisfy the **four tests** under Section 41(d)(1).



Business Components

“Qualified Research”

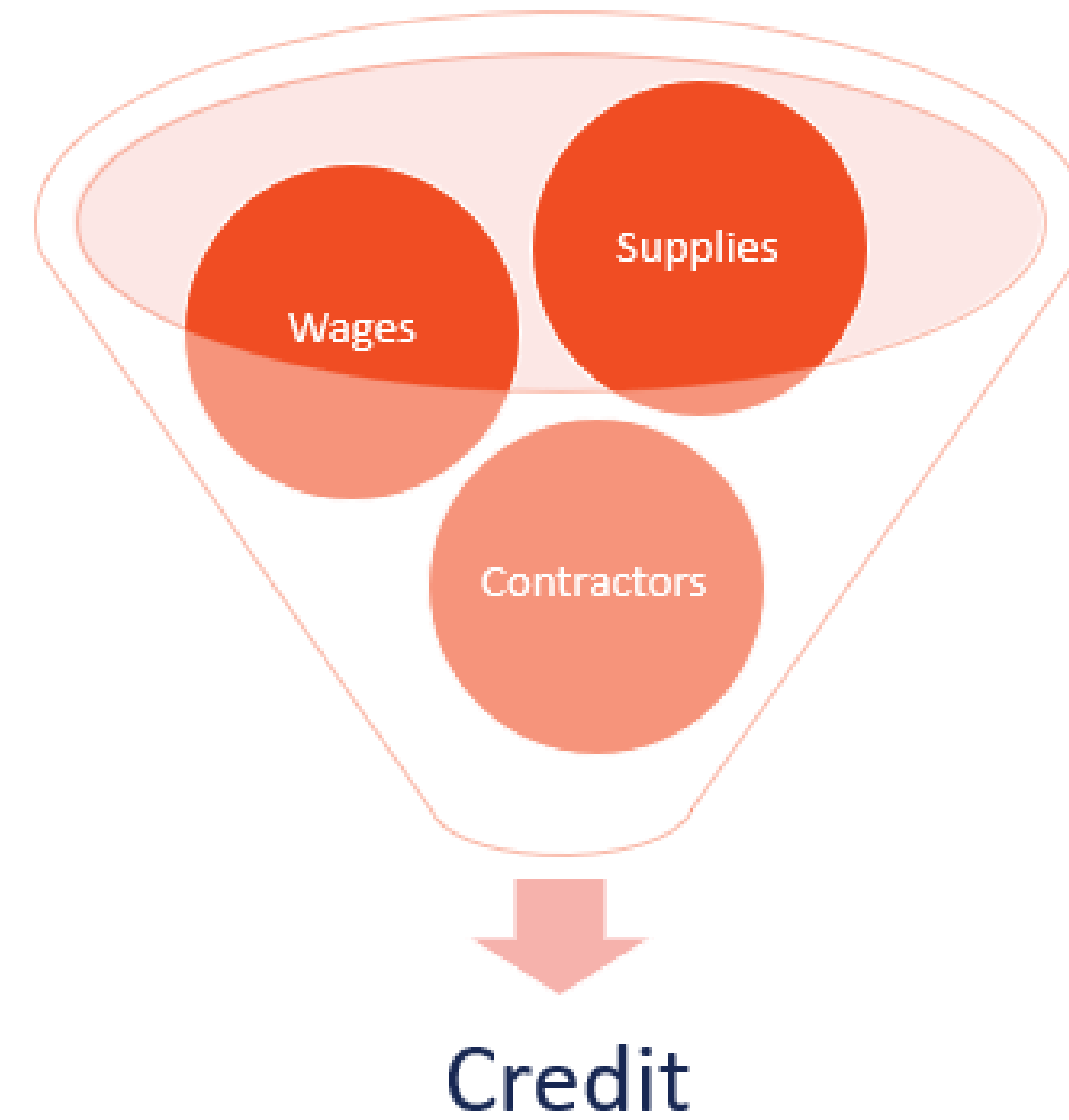
Activities

Four-Part Test



- 1. Permitted Purpose:** New or improved product or process related to its performance, reliability, quality, and function. *(We were trying to...)*
- 2. Technological In Nature:** Discover information that is technical in nature and involves research in physical, biological, or computer sciences, or engineering. *(We practice the science of...)*
- 3. Eliminate Uncertainty:** Remove uncertainty around capability, methodology, or appropriateness of design *(We didn't know how to...)*
- 4. Process of Experimentation:** Must substantially constitute a process of experimentation to qualify. *(We tested...)*

Expenditures



Business Components

- ✔ Determine the Business Component Strategy



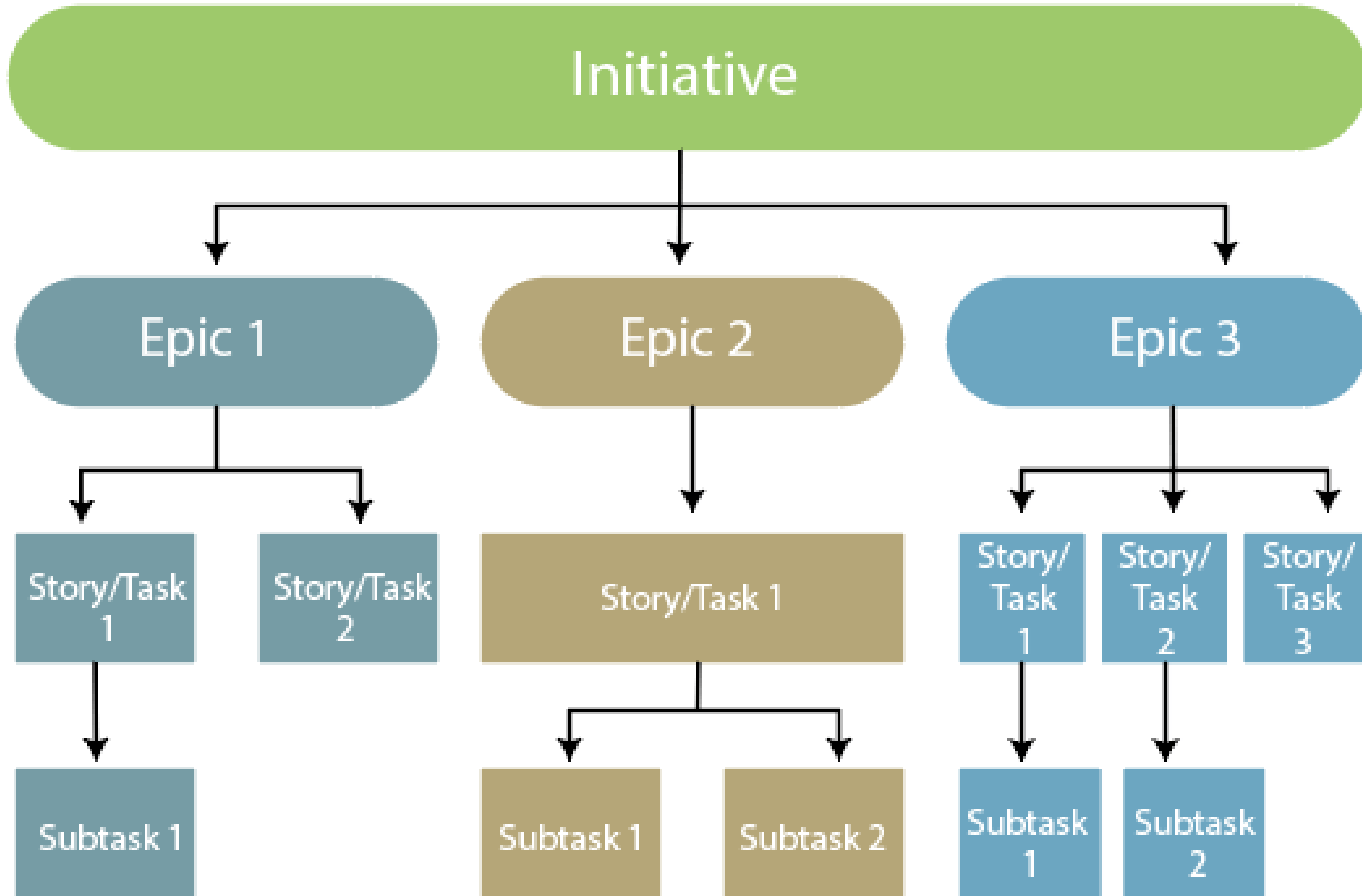
What is the business component?

- Entire car?
- Engine, body, electronics?
- Tires, brakes, steering?
- Battery, aerodynamics, ball bearings?

Tesla Roadster

- 0-60 1.9 seconds
- 250 mph top speed
- 620-mile range
- \$200k MSRP





Business Components and Activity-Level Information

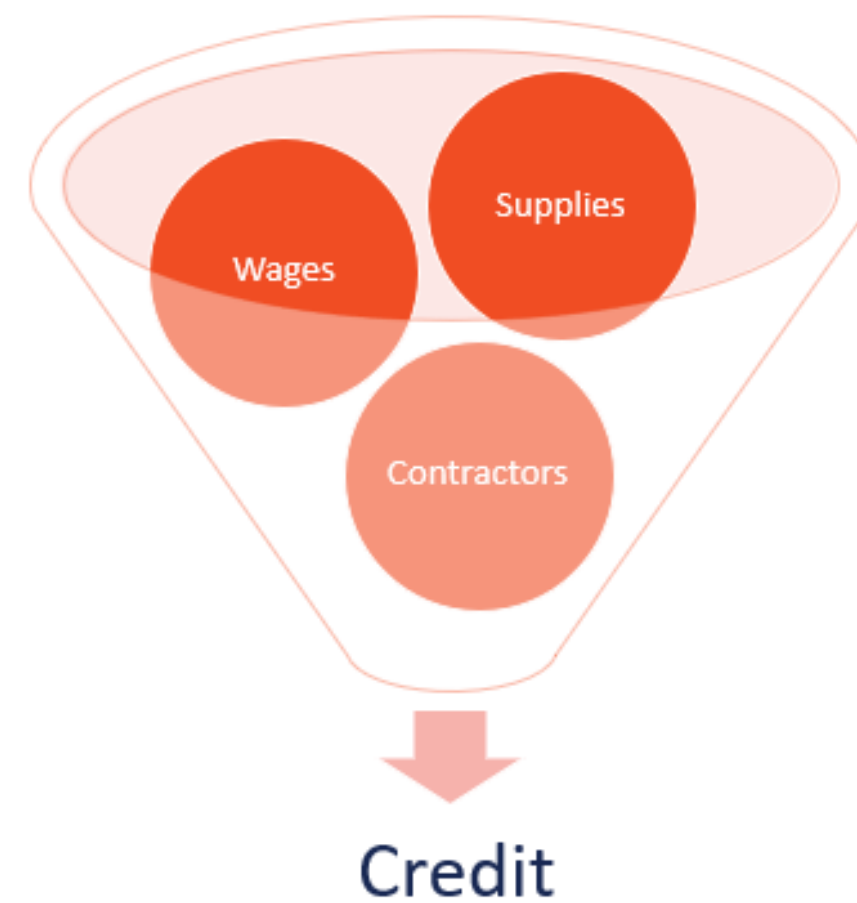
“Qualified Research”

Activities

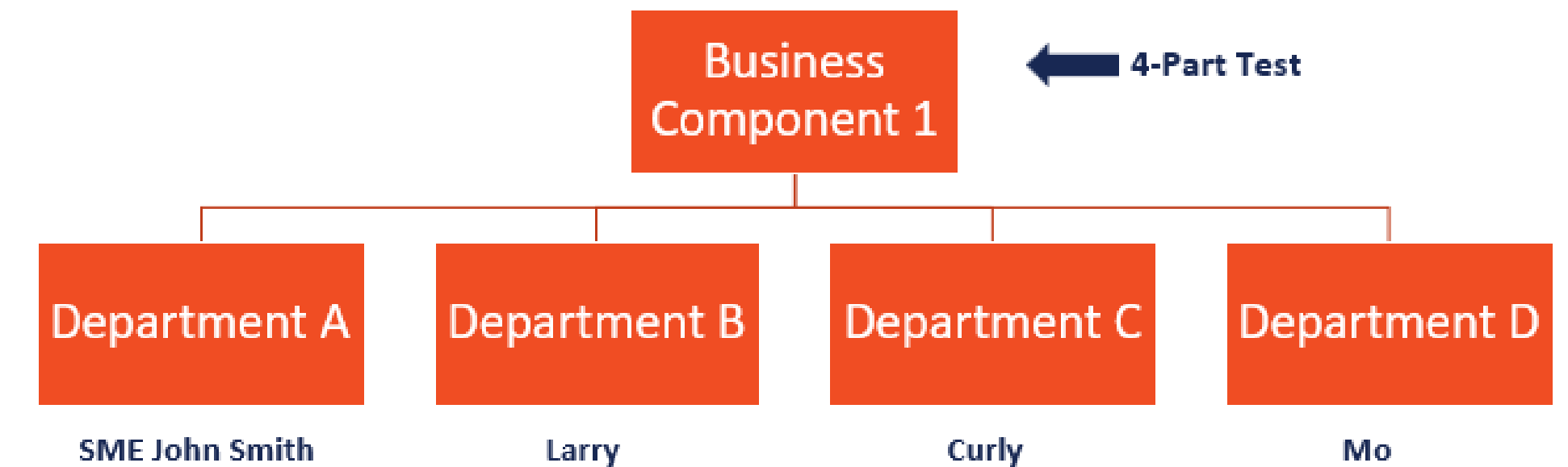
Four-Part Test

1. **Permitted Purpose:** New or improved product or process related to its performance, reliability, quality, and function. *(We were trying to...)*
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4. **Process of Experimentation:** Must substantially constitute a process of experimentation to qualify. *(We tested...)*

Expenditures



Activity-Level Information



- Who are Direct Researchers, Supporters, Supervisors?
- What are the qualifying activities for each person?
- Can you prove 80% of the activities were related to the process of experimentation?

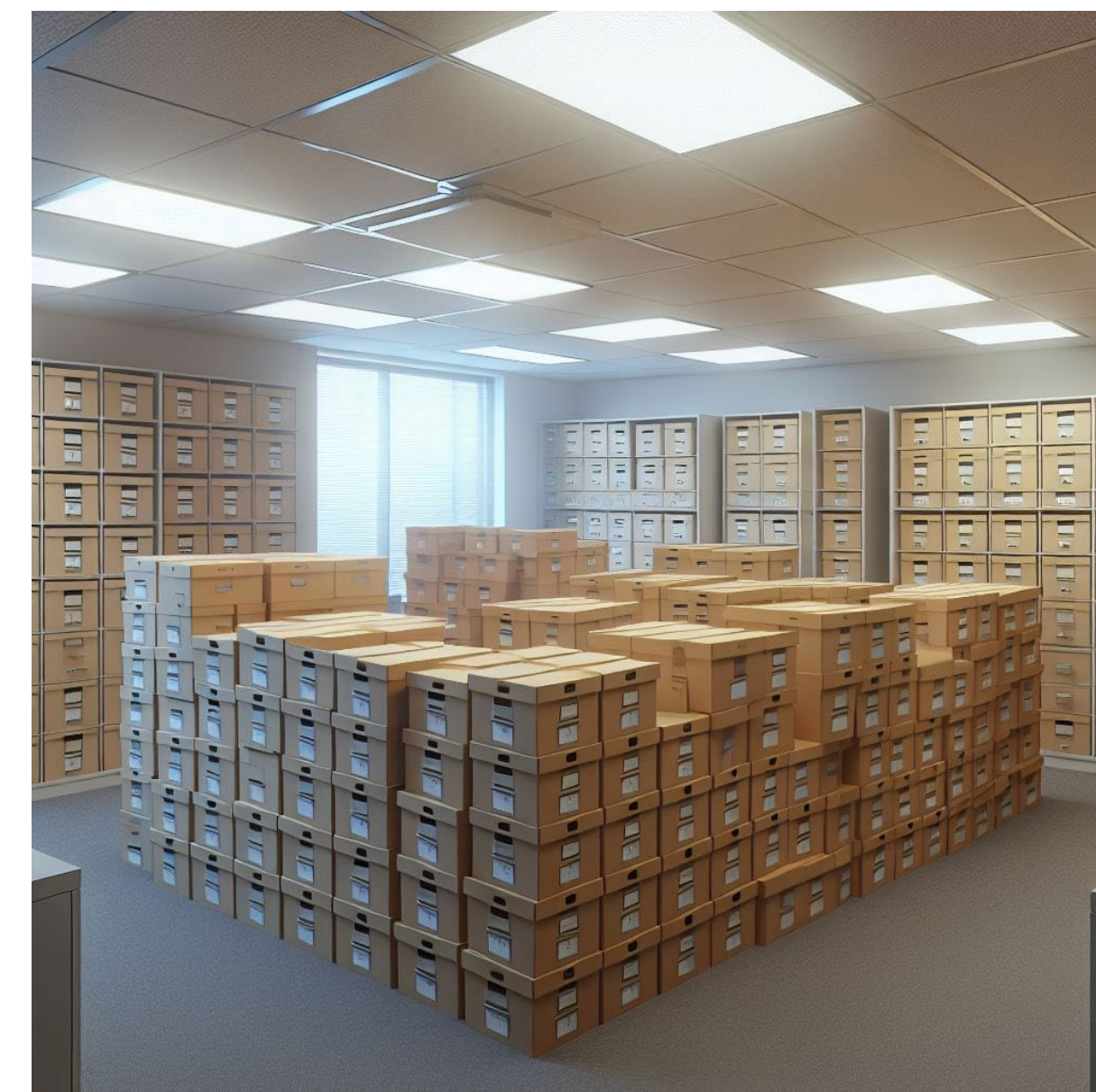


Interviews and Documentation

PAVE the Road with documentation



FILL the potholes with interviews



Is Contemporaneous Documentation Legally Required?

- ✔ Section 41 **does not** expressly require contemporaneous documentation.
- ✔ Documentation duty arises from IRC section 6001 and Treasury Regulations.
- ✔ Courts **strongly prefer contemporaneous records**, but do not treat them as statutory prerequisite.
 - Courts weigh **credibility** and **specificity**.
 - After-the-fact reconstructions are viewed with skepticism.
 - Oral testimony alone is usually insufficient.
 - Estimates are only allowed in narrow circumstances.
- ✔ Lack of contemporaneous documentation **dramatically increases** audit and litigation risk.

Is Contemporaneous Documentation Legally Required?

✓ Little Sandy Coal

- “Taxpayer claimed more tax credit than it could prove.”
- “Generalized descriptions of uncertainty, assertions of novelty, and arbitrary estimates of time spent performing experimentation is not enough.”
- Problem was not the absence of contemporaneous documentation per se
 - It was the absence of a ***principled way*** to determine which activities were research and how much time was spent on them.
 - The Court rejected **novelty arguments** and **arbitrary estimates, not all non-contemporaneous evidence.**
 - The Court focused on **failure of proof**, not timing of records.
 - Substantiation must tie **activities to the process of experimentation.**

Is Contemporaneous Documentation Legally Required?

✓ Siemer Milling

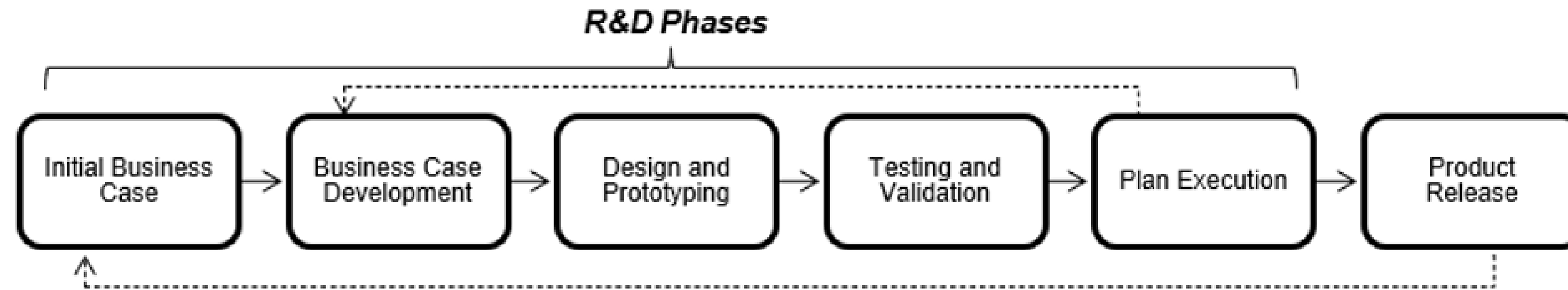
- “While Siemer states that it engaged in a process of experimentation, there is little record to support this assertion.”
- Where was the testing, hypothesis, documentation showing systematic experimentation?

✓ Bottom Line

- Contemporaneous documentation is the **gold standard**, but not a statutory requirement.
- Courts decide cases based on **credibility, detail, and nexus**.
- The **earlier** the record is built, the more **leverage** taxpayers have.

B/Cs, Activity-Level Information, and Documentation

Product Development Life Cycle Memorandum



Phase	Qualified Research Activities Performed	Departments Involved	Documents Created
Initial Business Case	<ul style="list-style-type: none"> - The project idea is submitted, including a description, customer insight, the project's benefits, and what problems will be solved. - The project undergoes preliminary design in which requirements, features, and functionality are defined. - The engineering team reviews the initial concept to assess the project's feasibility and evaluates the most effective development path. 	<ul style="list-style-type: none"> - - - - - 	<ul style="list-style-type: none"> - Product description - Preliminary design criteria - Initial conceptual designs

2025 Case

✓ Kyocera AVX, D.C., but refiled in T.C.

- Multi-national manufacturer.
- 2018 claim of \$400k, later amended after PwC study to \$1.7 m.
- IRS filed motion for Summary Judgement.
 - No issue as to facts.
 - Law supports IRS since Kyocera had burden of proof.
 - No documentation in support.



2025 Kyocera Takeaways

- ✓ Documentation over interviews.
- ✓ SMEs must opine on reasonable number of employees.
- ✓ SME testimony to PwC not reliable since after-the-fact.
- ✓ Activity-level information and documentation needed to prove 80% POE.
- ✓ Technical documentation was not retained by Kyocera or PwC.
- ✓ B/Cs too broadly defined.



Best Practice Action Steps

- ✔ Work with your SMEs on a Business Component Strategy.
 - Explain the new Form and IRS focus
- ✔ Gather Product or Software Development Lifecycle.
 - Phases
 - Qualified activities
 - Resources
 - Documentation
- ✔ Lay the foundation for why SMEs are qualified to opine on B/Cs and employee activities.
 - Keep the number of employees to SMEs at a reasonable amount.
- ✔ Value documentation over interviews.
 - Retain and organize technical documentation now.
 - Don't wait until an examination.



Jason Massie

Founder & President

R&D Best Practice Roundtable
TOMORROW - 10 AM MT



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Jason Massie, CPA, Esq., is the Founder and President of MASSIE R&D Tax Credits and has 36 years of tax consulting experience.

Jason received a B.S. in Accounting from Christian Brothers University and a Juris Doctor from the Cecil C. Humphreys School of Law at the University of Memphis. He first learned of R&D Tax Credits at a Big 8 accounting firm in Washington, D.C. Over the next dozen years, Jason led Big 4 and law firm practices and founded MASSIE in 2004. His peers widely recognize him as an expert with frequent speaking and writing engagements.

In Jason's free time, he transforms from a Founder and President to an endurance enthusiast. He has completed over 50 marathons and 15 Ironman Triathlons. Jason's favorite races include Honolulu, Boston, Chicago, NYC Marathons, Ironman Nice, Alaska, and Canada. "I've embraced the endurance lifestyle for over 30 years now. My exercise time is a great stress reliever and is when I think, pray, and solve problems." Jason and his wife Carol live on Lake Lanier, just north of Atlanta.



BREAK