



This document is scheduled to be published in the Federal Register on 11/03/2016 and available online at <https://federalregister.gov/d/2016-26522>, and on FDsys.gov

[4830-01-p]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[TD 9786]

RIN 1545-BC70

Credit for Increasing Research Activities; Correction

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Correcting amendment.

SUMMARY: This document contains corrections to final regulations (TD 9786) that were published in the **Federal Register** on Tuesday, October 4, 2016 (81 FR 68299). The final regulations provided guidance regarding the application of the credit for increasing research activities.

DATES: This correction is effective **[INSERT DATE OF PUBLICATION IN THE FEDERAL REGISTER]** and is applicable on or after October 4, 2016.

FOR FURTHER INFORMATION CONTACT: Martha Garcia or Jennifer Records of the Office of Associate Chief Counsel (Passthroughs and Special Industries) at (202) 317-6853 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Background

The final regulations (TD 9786) that are the subject of this correction are under section 41 of the Internal Revenue Code.

Need for Correction

As published, the final regulations (TD 9786) contain errors that may prove to be misleading and are in need of clarification.

List of Subjects in 26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

Correction of Publication

Accordingly, 26 CFR part 1 is corrected by making the following correcting amendments:

PART 1 - INCOME TAXES

Paragraph 1. The authority citation for part 1 continues to read in part as follows:

Authority: 26 U.S.C. 7805 * * *

Par. 2. Section 1.41-4(c)(6)(viii) is amended by:

- a. Revising the fifth sentence of Example 14 paragraph (ii).
- b. Revising the fifth sentence of Example 17 paragraph (i).

The revisions read as follows:

§ 1.41-4 Qualified research for expenditures paid or incurred in taxable years ending on or after

December 31, 2003.

* * * * *

(c) * * *

(6) * * *

(viii) * * *

Example 14. * * *

(ii) * * * If X's research activities related to the development or improvement of Subset B constitute qualified research under section 41(d), without regard to section 41(d)(4)(E), and the allocable expenditures are qualified research expenditures under section 41(b), X may include \$6,250 (25% x \$25,000) of the software research expenditures of Subset B in computing the amount of X's credit, pursuant to paragraph (c)(6)(vi)(C) of this section.

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Example 17. * * *

(i) * * * The ability to use the idle employees' computers would save X significant costs because X would not have to buy new hardware to expand the computing power. * * *

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Martin V. Franks,
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[FR Doc. 2016-26522 Filed: 10/31/2016 4:15 pm; Publication Date: 11/3/2016]