



Anneken, Huey & Moser^{PLLC}

Certified Public Accountants

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Here's the Tax Beat broadcast for October 7

Subject Line: The World's Most Expensive Science Fair Project

You can't open a newspaper, a news site, or your neighbor's Facebook feed these days without reading about AI data centers. They're gobbling up farmland. They're drinking the rivers dry. They're sending your electric bill to the moon. They're the reason your nephew the philosophy major is suddenly "in infrastructure." We've held out as long as we could here. But if you can't beat 'em, join 'em. So, this week, we're writing about AI data centers, too.

Fortunately, the New York Times just handed us an excuse. Mark Zuckerberg has spent two years telling Wall Street that Meta's AI push is a smashing success that's supercharging every corner of the business. Investors believe him, too — the company's worth nearly \$2 trillion. But when Meta files its taxes, the story changes. Those gleaming, multibillion-dollar data centers? They're just an experiment. Might not even work. Fingers crossed! (Picture a seventh-grader's baking-soda volcano, except it covers thousands of acres. And the baking soda costs thousands of dollars a gram.)

Why the sudden modesty? It's all about Code Section 41, the research credit. Congress created it back in 1981, when everybody in Washington was terrified Japan would out-invent us. (They gave the world the Walkman. We gave them the Pet Rock.) The credit rewards companies for trying things that might flop, and most of those companies claim it for salaries they pay engineers. Meta's twist? It's calling entire data centers "pilot models," which turns billions of dollars' worth of Nvidia chips into research "supplies." (At your office, "supplies" probably means printer paper and K-cups.)

It's working, too — so far. The credit knocked \$700 million off Meta's tax bill in 2023, \$2 billion in 2024, and \$3.9 billion last year. That's more than a tenth of what the credit costs the entire Treasury. One research-credit specialist called the gambit "kind of wild and out there," which is how tax people say, "hold my beer." And it isn't Meta's first rodeo. Back in 2013, the company claimed \$4.1 billion of Zuckerberg's stock options as a research expense because he helped invent the News Feed. (The IRS is still trying to get its \$355 million back. The rest of us would settle for the hours we've lost scrolling.)

Will the data-center play hold up? Even Meta isn't sure. Its own financial statements report they've set aside \$18.74 billion for tax positions that might not survive, and research credits top the list of reasons why. Here's the thing: that isn't tax planning, it's tax gambling. Meta can afford to roll the dice. It's got armies of lawyers, and if the IRS objects, it'll probably settle and still come out ahead. You, on the other hand, don't have \$18.74 billion hiding in your couch cushions. Real planning means strategies that Congress wrote, courts have tested, and the IRS already knows how to audit. It's a lot less exciting. You'll sleep better.

Here's the good news: you don't need a data center to claim the research credit. You don't even need a lab coat. Manufacturers, software developers, engineers, architects, electricians, and even craft brewers qualify if they're solving real technical problems through real trial and error. If you're a startup, with no taxable income yet, you can use up to \$500,000 of the credit against your payroll taxes. Better still, last year's One Big Beautiful Bill lets you deduct domestic research costs right away again, instead of spreading them over five years. Thousands of businesses qualify and never claim a dime, because nobody ever told them that "research" doesn't have to mean curing cancer.

So no, you probably can't beat Meta at this game. But call us, and you can still join 'em in paying less. And there's nothing artificial about our intelligence!

Kevin

