

Credit for Increasing Research Activities

▶ Attach to your tax return.

Identifying number

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

1	Certain amounts paid or incurred to energy consortia (see instructions)			1	
2	Basic research payments to qualified organizations (see instructions)				
3	Qualified organization base period amount				
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)				
6	Cost of supplies				
7	Rental or lease costs of computers (see instructions)				
8	Enter the applicable percentage of contract research expenses (see instructions)				
9	Total qualified research expenses. Add lines 5 through 8				
10	Enter fixed-base percentage, but not more than 16% (see instructions)		%		
11	Enter average annual gross receipts (see instructions)				
12	Multiply line 11 by the percentage on line 10				
13	Subtract line 12 from line 9. If zero or less, enter -0-				
14	Multiply line 9 by 50% (.50)				
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 13% (.13). If "No," multiply line 16 by 20% (.20) and see the instructions for the schedule that must be attached. Members of controlled groups or businesses under common control: see instructions for the schedule that must be attached			17	

Section B—Alternative Incremental Credit. Skip this section if you are completing Section A or C.

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)				
20	Qualified organization base period amount (see the line 3 instructions)				
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% (.20)			23	
24	Wages for qualified services (do not include wages used in figuring the work opportunity credit)				
25	Cost of supplies				
26	Rental or lease costs of computers (see the line 7 instructions)				
27	Enter the applicable percentage of contract research expenses (see the line 8 instructions)				
28	Total qualified research expenses. Add lines 24 through 27				
29	Enter average annual gross receipts (see the line 11 instructions)				
30	Multiply line 29 by 1% (.01)				
31	Subtract line 30 from line 28. If zero or less, enter -0-				
32	Multiply line 29 by 1.5% (.015)				
33	Subtract line 32 from line 28. If zero or less, enter -0-				
34	Subtract line 33 from line 31				
35	Multiply line 29 by 2% (.02)				
36	Subtract line 35 from line 28. If zero or less, enter -0-				
37	Subtract line 36 from line 33				

Section B—Alternative Incremental Credit *(continued)*

38	Multiply line 34 by 3% (.03)	38		
39	Multiply line 37 by 4% (.04)	39		
40	Multiply line 36 by 5% (.05)	40		
41	Add lines 23, 38, 39, and 40	41		
42	Are you electing the reduced credit under section 280C? ► Yes <input type="checkbox"/> No <input type="checkbox"/> If "Yes," multiply line 41 by 65% (.65). If "No," enter the amount from line 41 and see the line 17 instructions for the schedule that must be attached. Members of controlled groups or businesses under common control: see instructions for the schedule that must be attached	42		

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

43	Certain amounts paid or incurred to energy consortia (see the line 1 instructions)	43		
44	Basic research payments to qualified organizations (see the line 2 instructions)	44		
45		45		
46	Qualified organization base period amount (see the line 3 instructions)	46		
47	Subtract line 45 from line 44. If zero or less, enter -0-	47		
48	Add lines 43 and 46	48		
49	Wages for qualified services (do not include wages used in figuring the work opportunity credit)	49		
50		50		
51		51		
52		52		
53		53		
54		54		
55	Cost of supplies	55		
56	Rental or lease costs of computers (see the line 7 instructions)	56		
57	Enter the applicable percentage of contract research expenses (see the line 8 instructions)	57		
58	Total qualified research expenses. Add lines 49 through 52	58		
59	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 55 and 56	59		
60	Divide line 54 by 6.0	60		
61	Subtract line 55 from line 53. If zero or less, enter -0-	61		
62	Multiply: • Line 56 by 12% (.12) for tax years ending before 2009, • Line 56 by 14% (.14) for tax years ending after 2008, or • Line 53 by 6% (.06) if you skipped lines 55 and 56.	62		
63	Add lines 48 and 57	63		
64	Are you electing the reduced credit under section 280C? ► Yes <input type="checkbox"/> No <input type="checkbox"/> If "Yes," multiply line 58 by 65% (.65). If "No," enter the amount from line 58 and see the line 17 instructions for the schedule that must be attached. Members of controlled groups or businesses under common control: see instructions for the schedule that must be attached	64		
65		65		

Section D—Summary

60	Enter the portion of the credit from Form 8932, line 2, that is attributable to wages that were also used to figure the credit on line 17, line 42, or line 59 (whichever applies)	60		
61	Subtract line 60 from line 17, line 42, or line 59 (whichever applies). If zero or less, enter -0-	61		
62	Credit for increasing research activities from partnerships, S corporations, estates, and trusts	62		
63	Add lines 61 and 62. Estates and trusts go to line 64; partnerships and S corporations, report this amount on Schedule K; all others, report this amount on line 1c of Form 3800	63		
64	Amount allocated to beneficiaries of the estate or trust (see instructions)	64		
65	Estates and trusts: subtract line 64 from line 63. Report the credit on line 1c of Form 3800	65		

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

What's New

- The general credit rate for the alternative simplified credit increased from 12 percent to 14 percent.
- The alternative incremental credit in Section B will terminate for tax years beginning after December 31, 2008.
- The current year credit must be reduced by the amount (if any) of the credit for employer differential wage payments.

Purpose of Form

Use Form 6765 to figure and claim the credit for increasing research activities.

Who Must File

An individual, estate, trust, organization, or corporation claiming a credit for increasing research activities; or any S corporation, partnership, estate, or trust that allocates the credit to its shareholders, partners, or beneficiaries must complete this form and attach it to its income tax return. If you are a taxpayer that is not a partnership or S corporation, and your only source of this credit is from a partnership, S corporation, estate, or trust, you are not required to complete or file this form, with the following exception: you are a taxpayer that is an estate or trust and the credit can be allocated to beneficiaries. For more details, see the Instructions for Form 1041, Schedule K-1, box 13.

Note: Corporations filing an amended return to claim a refund of the research credit, see Notice 2008-39, I.R.B. 2008-13 684, available at http://www.irs.gov/irb/2008-13_IRB/index.html for information on where to file.

Qualified Research

The research credit is generally allowed for expenditures paid or incurred for qualified research. *Qualified research* means research for which expenditures may be treated as section 174 expenses. This research must be undertaken for discovering information that is technological in nature, and its application must be intended for use in developing a new or improved business component of the taxpayer.

In addition, substantially all of the activities of the research must be elements of a process of experimentation relating to a new or improved function, performance, reliability, or quality. The research credit generally is not allowed for the following types of activities.

- Research conducted after the beginning of commercial production.
- Research adapting an existing product or process to a particular customer's need.
- Duplication of an existing product or process.
- Surveys or studies.
- Research relating to certain internal-use computer software.
- Research conducted outside the United States, Puerto Rico, or a U.S. possession.
- Research in the social sciences, arts, or humanities.
- Research funded by another person (or governmental entity).

If you incur qualified clinical testing expenses relating to drugs for certain rare diseases, you can elect to claim the orphan drug credit for these expenses instead of the research credit. See Form 8820, Orphan Drug Credit.

See section 41 and Regulations sections 1.41-2 and 1.41-4 for other definitions and special rules.

Special Rules

See section 41(f) and Regulations sections 1.41-6, 1.41-6T, and 1.41-7 for special rules related to:

- Aggregation of expenditures for members of controlled groups and businesses under common control;
- Allocation of the credit by partnerships, estates, and trusts;
- Adjustments, if a major portion of a business is acquired or disposed of; and
- Short tax years.

For special rules concerning the allocation and apportionment of research and experimental expenditures between U.S. and foreign source income, see sections 861 through 864.

Member of Controlled Group or Business Under Common Control

For purposes of figuring the credit, all members of a controlled group of corporations (as defined in section 41(f)(1)(A) and (f)(5)) and all members of a group of businesses under common control (as defined in section 41(f)(1)(B)), are treated as a single taxpayer. As a member, compute your credit based on your proportionate share of qualified research expenses and basic research payments giving rise to the group's research credit for Section A, B, or C. Enter your share of the credit on line 17, 42, or 59, whichever applies. Attach a statement showing how your share of the credit was figured, and write "See Attached" next to the entry space for line 17, 42, or 59.

For special rules regarding the election (or revocation of the election) of the alternative incremental credit in Section B by a controlled group of corporations, see Regulations section 1.41-8.

Specific Instructions

You can:

- Claim the regular credit in Section A,
- Elect the alternative incremental credit in Section B, or
- Elect the alternative simplified credit in Section C.

You may want to figure your credit using all of the methods for which you are eligible to get the maximum credit allowed.

Once elected, the alternative incremental credit or the alternative simplified credit applies to the current tax year and all later tax years, unless you revoke the election. The revocation for the alternative incremental credit must be made on an original return filed by the due date (including extensions). See Regulations section 1.41-8T. The revocation of the alternative incremental credit may not be made on an amended return. To revoke a previous election of the alternative incremental credit, complete Section A or C.

Section A—Regular Credit

Skip this section and go to Section B or C if:

1. You are electing the alternative incremental credit,
2. You are electing the alternative simplified credit, or
3. You previously elected the alternative incremental credit or the alternative simplified credit and are not revoking the election on this return.

Line 1

Enter the amounts you paid or incurred to energy research consortia for energy research. Energy research does not include any research that is not qualified research. In general, an energy research consortium is any organization described in section 501(c)(3), exempt from tax under section 501(a), organized and operated primarily to conduct energy research, and not a private foundation. See section 41(f)(6) for further details.

Any amount included on line 1 cannot be included elsewhere on the return.

Line 2

Enter the amounts the corporation (not to include S corporations, personal holding companies, and service organizations) paid in cash, under a written contract, for basic research to a qualified university, scientific research organization, or grant organization. See section 41(e) for details, including the definitions of qualified organizations.

Line 3

Enter the qualified organization base period amount based on minimum basic research amounts plus maintenance-of-effort amounts for the three preceding tax years. See section 41(e) for details.

Line 7

Enter the amount you paid or incurred for the rental or lease of computers used in qualified research. The computer must be located off your premises and you must not be the operator or primary user of the computer. Reduce this amount by the amount that you (or any member of a controlled group of corporations or businesses under common control) received or accrued for the right to use substantially identical property.

Line 8

Enter the amounts you paid or incurred, subject to the following limitations.

- 100% of amounts you paid (or incurred) for qualified energy research performed by: an eligible small business, a university, or a federal laboratory (see section 41(b)(3)(D) for definitions of those entities). Also include payments to those same entities to the extent they are included as basic research payments in line 2, not to exceed the base period amount in line 3.

- 75% of amounts you paid (or incurred) for qualified research by a qualified research consortium (as defined by section 41(b)(3)(C)(ii)). Also include 75% of the payments to a qualified research consortium to the extent they are included as basic research payments in line 2, not to exceed the base period amount in line 3.

- 65% of amounts you paid (or incurred) for all other qualified research by any other person. Also include 65% of the payments to that person to the extent they are included as basic research payments in line 2, not to exceed the base period amount in line 3.

Note. Prepaid contract research expenses are considered paid in the year the research is actually done.

Line 10

The fixed-base percentage depends on whether you are an existing company or a start-up company.

A start-up company is a taxpayer that had both gross receipts and qualified research expenses either:

- For the first time in a tax year beginning after 1983, or
- For fewer than 3 tax years beginning after 1983 and before 1989.

The fixed-base percentage for a start-up company is figured as follows.

- For the first 5 tax years beginning after 1993 for which you have qualified research expenses, the percentage is 3%.
- For the 6th tax year beginning after 1993 for which you have qualified research expenses, divide the aggregate qualified research expenses for the 4th and 5th such tax years by the aggregate gross receipts for those tax years, then divide the result by 6.
- For the 7th tax year beginning after 1993 for which you have qualified research expenses, divide the aggregate qualified research expenses

for the 5th and 6th such tax years by the aggregate gross receipts for those tax years, then divide the result by 3.

- For the 8th tax year beginning after 1993 for which you have qualified research expenses, divide the aggregate qualified research expenses for the 5th, 6th, and 7th such tax years by the aggregate gross receipts for those tax years, then divide the result by 2.

- For the 9th tax year beginning after 1993 for which you have qualified research expenses, divide the aggregate qualified research expenses for the 5th, 6th, 7th, and 8th such tax years by the aggregate gross receipts for those tax years, then divide the result by 1.5.

- For the 10th tax year beginning after 1993 for which you have qualified research expenses, divide the aggregate qualified research expenses for the 5th through 9th such tax years by the aggregate gross receipts for those tax years, then divide the result by 1.2.

- For the 11th and later tax years beginning after 1993 for which you have qualified research expenses, divide the aggregate qualified research expenses for any 5 of the 5th through 10th such tax years by the aggregate gross receipts for those tax years.

The fixed-base percentage for an existing company (any company that is not a start-up company) is figured by dividing the aggregate qualified research expenses for the tax years beginning after 1983 and before 1989 by the aggregate gross receipts for those tax years.

The fixed-base percentage for all companies (existing and start-up) must be rounded to the nearest 1/100th of 1% (that is, four decimal places) and cannot exceed 16%. In addition, when figuring your fixed-base percentage, you must reflect expenses for qualified research conducted in Puerto Rico or a U.S. possession for all prior tax years included in the computation.

If short tax years are involved, see Regulations section 1.41-3(b).



Reduce gross receipts by returns and allowances. For a foreign corporation, include only gross receipts that are effectively connected with a trade or business in the United States (or in Puerto Rico or a U.S. possession, if applicable).

Line 11

Enter the average annual gross receipts (reduced by returns and allowances) for the 4 tax years preceding the tax year for which the credit is being determined. You may be required to annualize gross receipts for any short tax year. For a foreign corporation, include only gross receipts that are effectively connected with a trade or business in the United States (or in Puerto Rico or a U.S. possession, if applicable).

For a tax year that the credit terminates, the average annual gross receipts for the four tax years preceding the termination tax year is prorated for the number of days the credit applied during the tax year. For more information, see section 41(h).

Line 17

If you do not elect the reduced credit, which can only be claimed on an original timely filed return (with extensions), you must reduce your otherwise allowable deduction for qualified research expenses or basic research expenses by the amount of the credit on this line. If the credit exceeds the amount allowed as a deduction for the tax year, reduce the amount chargeable to capital account for the year for such expenses by the amount of the excess. Attach a schedule to your tax return that lists the deduction amounts (or capitalized expenses) that were reduced. Identify the lines of your return (schedule or forms for capitalized items) on which the reductions were made.

Section B—Alternative Incremental Credit

Complete this section only if, instead of the regular credit or the alternative simplified credit:

- 1. You are electing the alternative incremental credit, or

- 2. You previously elected the alternative incremental credit and are not revoking the election on this return.

Section C—Alternative Simplified Credit

Complete this section only if, instead of the regular credit or the alternative incremental credit:

- 1. You are electing the alternative simplified credit, or
- 2. You previously elected the alternative simplified credit and are not revoking the election on this return.

Line 54

Enter your qualified research expenses for the prior three tax years. If the credit terminates during the tax year, prorate the qualified research expenses for the prior three tax years for the number of days the credit applied during the tax year. For more information, see section 41(h).

Section D—Summary

Line 60

If the credit on line 17, 42, or 59 includes amounts paid to employees as wages, and you are also claiming a credit for employer differential wage payments based on payments you made to the same employees, enter on line 60 the portion of the credit from Form 8932, line 2, that is attributable to wages that were also used to figure the credit on line 17, line 42, or line 59 (whichever applies).

See Form 8932, Credit for Employer Differential Wage Payments, for more information on the credit.

Line 64

Estates and trusts. Allocate the credit for increasing research activities on line 63 between the estate or trust and the beneficiaries in the same

proportion as income was allocated and enter the beneficiaries' share on line 64.

Paperwork Reduction Act Notice.

We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return.

The estimated burden for all other taxpayers who file this form is shown below. The estimated average time is:

Recordkeeping . . . 16 hr., 15 min.

Learning about the law or the form 2 hr., 22 min.

Preparing and sending the form to the IRS 2 hr., 45 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.