



## Credit for Increasing Research and Development Activities

For taxable year beginning \_\_\_\_\_ and ending \_\_\_\_\_

Read the instructions before completing this form

**Note:**

- A credit can be claimed for only those research activities that are conducted in Montana.
- A credit allowed for a tax year may not exceed the tax liability under chapter 30 or 31 MCA.

<b>Part I – Credit Calculation for Basic Research Payments (see IRC 41(e))</b>	
1. Enter the basic research payments paid or incurred to qualified organizations (see instructions)	1.
2. Qualified organization base period amount.....	2.
3. Subtract line 2 from line 1. If less than zero, enter zero.....	3.
<b>Part II – Credit Calculation for Qualified Research Expenses (see IRC 41 (e))</b>	
4. Wages for qualified services (do not include wages used to compute the Federal Jobs Credit)	4.
5. Cost of Supplies.....	5.
6. Rental or lease costs of computers (see instructions).....	6.
7. Enter the applicable percentage of contract research expenses (see instructions).....	7.
8. Total qualified research expenses – Add line 4 through 7.....	8.
9. Enter fixed – based percentage, but not more than 16%.....	9.
10. Enter average annual gross receipts.....	10.
11. Base amount – Multiply line 10 by the percentage on line 9.....	11.
12. Subtract line 11 from line 8.....	12.
13. Enter 50% (.50) of line 8.....	13.
14. Enter the smaller of line 12 or 13.....	14.
<b>Part III – Total Research and Development Tax Credit</b>	
15. Enter the total of line 3 and line 14.....	15.
16. Enter 5% (.05) of line 15.....	16.
17. Research and Development Tax Credit carried forward from a prior year (attach schedule).....	17.
18. Total Research and Development Tax Credit available (Add line 16 and line 17)..... For Individual Income Tax enter this amount on line 109 of Form 2A or for Corporation License Tax enter this amount on line 14 Schedule C, Form CLT-4.	18.

## Instructions

### Credit for Increasing Research and Development Activities

#### Items to Note

- A credit can be claimed for only those research activities that are conducted in Montana
- A credit for increased research activities is allowed based on qualified expenditures made in taxable years beginning after December 31, 1998.
- Section references are to the Internal Code otherwise noted.

#### Purpose of Form

Use form RSCH to calculate and claim the credit for increasing the research activities of a trade or business. Complete Parts I through III to compute the research credit.

#### Qualified Research Activities

The research and development tax credit is generally allowed for qualified research activities. Qualified research activities means research for which expenditures may be treated as I.R.C. 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. For in-house research expenses (see I.R.C. 41 (b)(2), the requirement that the taxpayer must have incurred the expenses in carrying on a trade or business will be met if the principal purpose for conducting the research is to use the results of the research in the active conduct of a future trade or business. See I.R.C. 41 (b)(4).

The research and development tax credit is generally not allowed for the following types of activities

1. Research conducted after the beginning of commercial production;
2. Research adapting an existing product or process to a particular customer's need;
3. Duplication of an existing product or process;
4. Survey or studies;
5. Research relating to certain internal use computer software;
6. Research conducted outside the State of Montana;
7. Research in the social sciences, arts or humanities; or
8. Research funded by another person (or governmental entity).

See I.R.C. 41 for other definitions concerning the research credit

#### Who Must File

A corporation, individual, small business corporation, partnership or limited liability company claiming a credit for increasing research activities should complete this form and attach it to a tax return.

For a small business corporation, partnership or limited liability company claiming a credit for increasing research activities, the credit must be attributed to the individual shareholders, partners, members or managers in the same proportion used to report income or loss for Montana tax purposes. The allocations I.R.C. 41(f) do not apply.

#### Credit Carryover

If the research credit cannot be used because of tax liability limitations, it may be carried back two years and forward up to fifteen years. The entire amount of the credit not used in the year earned must be carried first to the earliest tax year in which the credit may be applied and then to each succeeding year. Please attach a schedule documenting any credit carryover.

### Specific Instructions for Form RSCH

#### Part I

##### Credit Calculation for Basic Research Payments

**Line 1** – A Corporation, individual, small business corporation, partnership or limited liability company is eligible for a “basic research” credit if your payments in such to a qualified university or scientific research organization (under a written contract) exceed a base period amount (based on your general university giving and certain other maintenance-of-effort levels for three preceding years). Enter your payments for basic research conducted in Montana on line 1. See I.R.C. 41 (e) for details.

**Line 2** – Enter the base period amount as defined in I.R.C. 41 (e) cannot exceed the amount on line 1.

## Part II

### Credit Calculation for Qualified Research Expenses

**Lines 4 through 7** – pertain to qualified research expenditures paid or incurred for research activities conducted in Montana.

**Lines 6** - See I.R.C. 41 (b)(2)(A) for rules on leased property if the taxpayer received payments for the rental or lease of substantial identical property.

**Line 7** – Include 65% (.65) of any amount paid or incurred for qualified research performed on the taxpayer's behalf. Prepaid tract research expenses are considered paid in the year the research is actually done. Also include 65% (.65) of that portion of the line 1 basic research payments that does not exceed the line 2 base amount See I.R.C. 41 (e)(1)(B). However use 75% in place of 65% for payments made to a qualified research consortium. A qualified research consortium is a tax-exempt organization described in section 501(c)(3) or 501(c)(6) that is organized and operated primarily to conduct scientific research and is not a private foundation.

**Line 9** - Compute the fixed base percentage as follows:

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. Round off the percentage to the nearest 1/100<sup>th</sup> of 1% (i.e. four decimal places).

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

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

For tax years beginning before January 1, 1994 the fixed-base percentage is 3 percent if you have fewer than 3 taxable years beginning after December 31, 1983 and before January 1, 1989 in which you had both gross receipts and qualified research expenses. If the percentage computation involves de minimis amounts of gross receipts and qualified expenses in a tax year or short tax years are involved, see I.R.C. 41(c)(3) and 41(f)(4).

For tax years beginning after December 31, 1993, the fixed base percentage is 3 percent for each of the first five tax years for which there were qualified research expenses. However, the fixed-base percentage for the sixth through tenth years after 1993 in which percentage (rounded to 1/100<sup>th</sup> of one percent) which qualified research expenses bear to gross receipts everywhere for specified preceding years as follows:

1. For the sixth year, one-sixth of the percentage which qualified research expenses bear to gross receipts everywhere for its fourth and fifth years;
2. For the seventh year, one-third of the percentage which qualified research expenses bear to gross receipts everywhere for its fifth through seventh years;
3. For the eighth year, one-half of the percentage which qualified research expenses bear to gross receipts everywhere for its fifth through seventh years;
4. For the ninth year, two-thirds of the percentage which qualified research expenses bear to gross receipts everywhere for its fifth through eighth years; and
5. For the tenth year, five-sixths of the percentage which qualified research expenses bear to gross receipts everywhere for its fifth through ninth years.

For subsequent tax years, the taxpayer's fixed-base percentage will be the whole percentage which qualified research expenditures bear to gross receipts everywhere for any five years selected by the taxpayer from the fifth through tenth tax years.

Note: The maximum percentage that can be entered on line 9 is 16%.

**Line 10** – Enter the average annual gross receipts everywhere for the four tax years preceding the tax year for which the credit is being determined (called the credit year). The taxpayer may be required to annualize gross receipts for any short tax year. See I.R.C. 41(c)(1)(B) and 41(f)(4).

For purposes of lines 9 and 10, reduce gross receipts everywhere for any tax year by returns and allowances made during the tax year. In the case of a foreign corporation, include only gross receipts that are effectively connected with the trade or business within the United States.

**Line 13** – The base amount cannot be less than 50% (.50) of the current year qualified research expenses. The rule applies to existing and newly organized businesses.

## Part III

### Total Research and Development Tax Credit

The total research and development tax credit available on line 18 is one of several credits that are allowed for individuals and corporations. Transfer to line 109 for Form 2A for Individual Income Tax or to line 14 Schedule C for Corporate License Tax, Form CLT-4.

Questions? Please call (406) 444-6900 or TDD (406) 444-2830 for hearing impaired. 