

# NEW JERSEY STATE R&D TAX CREDIT

## ELIGIBILITY

In general, C corporations and S corporations are eligible for the R&D Tax Credit if they have QREs as defined by IRC §41 in New Jersey during the tax period. This credit is currently not available to partnerships and other pass-through entities.

Taxpayers can claim the R&D Tax Credit to use as a tax offset. The credit is non-refundable.

## CALCULATING THE BENEFIT

The New Jersey R&D Credit is claimed using NJ Form 306. NJ Form 306 is submitted with the annual New Jersey state return.

The credit is calculated as 10% of the excess of the QREs over base for the current tax year over a base amount and 10% of the basic research payments. The base amount is equal to 50% of the average of the prior three-year QREs.

Where there are no QREs in the prior three tax years, taxpayers still apply the current year QREs against the credit rate of 10%.

Taxpayers must use the Pre-2018 Form 306 for years beginning before January 1, 2018 where the ASC method was not allowed.

For tax years beginning after Jan 1 2018, the updated Form 306 allows for use of the ASC method for better alignment with the federal income tax credit calculation.

## UTILIZATION

The tax credit, including any carry forward amount, may be used to offset the state tax liability.

Any amount in excess of the tax liability may be carried forward for a maximum of 15 consecutive tax periods.

Additionally, Qualified NJ based companies can sell a percentage of their credit.

## SUMMARY OF STATE CREDIT

- Form: **NJ Form 306**
- Effective: **1981**
- Expiration: **Indefinite**
- Calc Rate: **10% of the excess QREs over base**
- Calc Rate w/o base period: **10% of QREs**
- Base period: **50% of average QREs of past 3 years**
- Carry-forward: **7 years**
- Offset: **State Tax Liability**
- Refund: **No**

YR	TOTAL QREs	CREDIT CALCULATION	NJ CREDIT
2019	\$750k	1) Base Amount: $[(650 + 500 + 400) / 3] \times 50\% = 258.3$  2) $750 - 258.3 = 491.7$  3) $491.7 \times 10\%$	\$49.2k
Prior Year Amounts			
2018	\$650k		
2017	\$500k		
2016	\$400k		