

PENNSYLVANIA STATE R&D TAX CREDIT

ELIGIBILITY

In general, taxpayers are eligible for the R&D Tax Credit if they have QREs as defined by IRC §41 in Pennsylvania during the tax Period and they must have at least two years of R&D expenditures.

Taxpayers can claim the R&D Tax Credit to use against personal income tax or the corporate net income tax liability. The credit is non-refundable.

Additionally, Pennsylvania allows companies holding qualifying R&D credits to apply for approval to sell those tax credits.

CALCULATING THE BENEFIT

The Pennsylvania R&D Credit is claimed by filing out the online R&D Tax Credit Application. The application is due on December 1st, even if the date falls before your state tax returns due date.

The credit is calculated as 10% of QREs in the current tax period in PA that exceed the base amount.

For qualified small businesses (businesses with net book value of assets totalling less than \$5,000,000), the research credit is equal to 20 percent of the QESs that exceed the base amount.

The base amount is equal to the average Pennsylvania qualified research expenses for the four preceding taxable years.

UTILIZATION

The tax credit, including any carry forward amount may be used to offset tax liability. Any amount in excess of the tax liability may be carried forward for a maximum of 15 tax periods or sold if there is no outstanding tax liability.

Beginning 2018, the REV-545 paper application has been replaced with the Research and Development Tax Credit online application system. All applicants must submit Research & Development tax credit applications using the online application platform. The deadline for submission is December 1st. You must also have 2 years of R&D expenditures to make a claim.

Pennsylvania's R&D Credit has an annual cap of \$55 million on the amount of total credits that can be granted for a given tax year. If the credit claims exceed the cap for the year, the awarded credits are prorated.

SUMMARY OF STATE CREDIT

- Form: **Online Application**
- Effective: **1997**
- Expiration: **Indefinite**
- Calc Rate: **10% of exceeding QREs over base or 20% if qualified small business**
- Base period: **Avg QREs for preceding 4 yrs**
- Calc Rate w/o base period: **None**
- Carry-forward: **15 years**
- Offset: **State Tax Liability**
- Refund: **No**

| YR | TOTAL QREs | CREDIT CALCULATION | PA CREDIT |
|--------------------|------------|---|-----------|
| 2019 | \$750k | 1) Base Amount: (a) $750 \times 50\% = 375.0$ (b) $(650 + 500 + 400) / 3 = 516.7$ 2) $750 - 516.7 = 233.3$ 3) $233.3 \times 10\%$ | \$23.3k |
| Prior Year Amounts | | | |
| 2018 | \$650k | | |
| 2017 | \$500k | | |
| 2016 | \$400k | | |

*ND alternative excess research and development expenses means the amount by which QREs incurred in ND exceed 50% of the average QREs incurred in ND for the 3 tax years preceding the tax year for which the credit is being claimed.