

Schedule IT-20REC

State Form 49184 (R6 / 3-11)

Department of Revenue

Indiana Research Expense Tax Credit (#822)

(Enclose with annual income tax return)

Effective July 1, 2005

Tax Year Ending []

Name(s) of Taxpayer

Federal Identification Number

Part I -- Qualified Research Activities in Indiana (Explain in detail; attach additional sheets if necessary)

A. The place(s) where the services are performed (please be specific):

B. The residence or business location of the person(s) performing the services:

C. The place where qualified research supplies are consumed:

D. Other factors that may be relevant for determining allowable Indiana expenses:

Part II - Computation of Indiana Credit for Increasing Research Activities

Round all entries

Regular Credit for Research Conducted in Indiana

Qualified Research Expense Within Indiana

Table with 3 columns: Description, Line Number, Amount. Rows 1-17c detailing research expenses and calculations.

Alternative Incremental Credit for Research Conducted in Indiana

Table with 3 columns: Description, Line Number, Amount. Rows 18-26 detailing alternative incremental credit calculations.

Part III - Indiana Qualified Research Expense Credit

Table with 3 columns: Description, Line Number, Amount. Row 27: Enter amount from line 16 or 17c (or line 26 if using alternative incremental method)

Carry pro-rata distributive share of amount on line 27 plus any unused state carryover research expense credit to Form IT-20, IT-20NP, IT-40, or IT-40PNR.



IT-20REC (Code #822) Instructions (3-11)

Purposes of Schedule IT-20REC

Use Schedule IT-20REC to calculate your credit for increased research activities conducted in Indiana. Effective Jan. 1, 2008, the credit is 15% of the increase in Indiana qualified research expenses paid or incurred in the taxable year over the taxpayer's base amount if it is \$1 million or less. The credit is 10% if the amount is in excess of \$1 million.

"Indiana qualified research expense" means qualified research expense (as defined in Section 41(b) of the Internal Revenue Code (IRC) as in effect on Jan. 1, 2001) incurred for research conducted in Indiana.

"Base amount," effective July 1, 2005, means base amount (as defined in IRC Section 41(c) as in effect Jan. 1, 2001), modified by considering only Indiana qualified research expenses and gross receipts attributable to Indiana in the calculation of the taxpayer's:

- (1) fixed base percentage; and
- (2) average annual gross receipts.

The annual minimum base amount may not be less than 50% of the Indiana qualified research expense.

Who May File

An individual, a corporation, a limited liability company, a limited liability partnership, a trust, or a partnership that incurs Indiana research expense and has adjusted gross income tax liability, imposed under Indiana Code (IC) 6-3, is entitled to a research expense credit. Schedule IT-20REC is comparable to federal Form 6765, used for claiming credit for increasing research activities, and Form 8820, used for claiming orphan drug credit. Any taxpayer claiming this credit for increasing research activities must attach the completed schedule to the annual income tax return. A pass-through entity (S corporation, partnership, limited liability company, limited liability partnership) will allocate to each partner, shareholder, or member any remaining annual research expense credit multiplied by the percentage of income distribution to which the partner, shareholder, or member is entitled.

Each partner, shareholder, or member entitled to a research expense credit as shown by an attachment to the Indiana K-1 may claim their pro rata share of the credit with any carryover research expense credit on the Indiana individual income tax return. However, unlike the federal credit, beneficiaries of trusts and estates are not afforded this pass-through provision for state tax purposes. Partnerships (Form IT-65), S corporations (IT-20S), and fiduciaries (IT-41) must enclose IT-20REC with their annual return. A separate schedule showing each owner's pro rata share of the above amount must be provided, along with Schedule IN K-1, to each shareholder, partner, or member of an LLC.

Carryover of Unused Credits

A taxpayer is not entitled to any carryback or refund of any unused credit. However, it is not limited, unlike the federal credit, to just the taxes imposed on income attributed to a particular business which generated the expense credit. Any excess credit, or the full credit if there is no current year tax liability (after first applying all applicable credits under IC 6-3.1-2), may be carried over for up to 10 succeeding taxable years. A credit earned by a taxpayer in a particular taxable year is applied against the taxpayer's tax liability for that year before any credit carryover is applied against that liability. All taxpayers with a remaining credit carryover on Jan. 1, 2006, may carry the excess credit over not more than 10 taxable years following the year in which the taxpayer was first entitled to claim the credit. The carryover credit must be reduced by the amount used as a credit during the immediately preceding tax year.

General Instructions

Except as otherwise provided in IC 6-3.1-4, the provisions of IRC Section 41 and promulgated regulations are applicable in the interpretation and administration by the Department of Revenue regarding this credit. This includes the allocation and pass-through of the credit to various taxpayers and the transitional rules for determination of the base period.

Part I - Qualified Research Activities in Indiana

Answer the four questions on research activities. Your responses to these questions must be sufficiently detailed to provide the necessary data to determine that qualified research expense activity was conducted in Indiana.

Part II - Computation of Indiana Credit for Increasing Research Activities

Refer to federal Form 6765 for detailed line entry instructions. For purposes

of this section, qualified research expense means qualified research expenses (as defined in IRC Section 41(b) of the Internal Revenue Code as in effect on Jan. 1, 2001) incurred for research conducted in Indiana.

Regular Credit

Lines 1 - 8. All taxpayers will complete these lines with respect to qualified research expense activities conducted in Indiana. If you elect to use the alternative incremental method for federal tax purposes, skip lines 9 through 17 and continue to line 18.

Line 7. Include 65% of any amount paid or incurred for qualified research performed on your behalf. Prepaid contract research expenses are considered paid in the year the research is actually done. Also include 65% of that portion of the line 1 basic research payments which does not exceed the line 2 base amount. See IRC Section 41(e)(1)(B).

Lines 9 - 17. Regular credit computation is continued by completing lines 9 through 17 and line 27.

Line 9. Compute the fixed-based percentage as follows:

Existing firms - The fixed-base percentage is the ratio that the aggregate qualified research expenses for at least 3 tax years from 1984 to 1988 bears to the aggregate gross receipts for such tax years.

Start-up companies - If there are fewer than 3 tax years between 1984 to 1988 in which the taxpayer had both gross receipts and qualified research expenses, the percentage is 3%. If the percentage computation involves de minimis amounts of gross receipts and qualified expenses in a tax year, or if short tax years are involved, see IRC Sections 41 (c)(3) and 41(f)(4).

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

Line 10. Enter the average annual gross receipts attributable to Indiana for the 4 tax years preceding the tax year for which the credit is being determined. You may need to annualize gross receipts for any short tax year.

Note: For the purposes of lines 9 and 10, gross receipts for any tax year shall be reduced by returns and allowances made during the tax year. In the case of a foreign corporation, only gross receipts effectively connected with the trade or business within the U.S. should be taken into account.

Lines 13 and 14. Base period research expenses cannot be less than 50% of current year research expenses. This applies to existing businesses and newly organized businesses. The credit is calculated on the lesser of the difference between current year and base period expenses or 50% of current year expenses.

Alternative Incremental Credit

The alternative incremental credit can be used only by a taxpayer who is engaged in the aerospace industry and meets the criteria specified in IC 6-3.1-4-2.5(b). The alternative incremental credit is 10% of the taxpayer's Indiana qualified research expenses for the taxable year minus 50% of the taxpayer's average Indiana qualified expenses for the 3 taxable years preceding the taxable year for which the credit is being determined.

As an alternative to this computation, for years beginning after Dec. 31, 2009, a taxpayer that is not in the aerospace industry may compute the credit using the provisions of IC 6-3.1-4-2(d). You must enter the credit on line 27 of Form IT20REC, noting "See Statement," and enclose with your return Form IT-20REC and a statement showing your calculation.

Part III - Indiana Qualified Research Expense Credit

Line 27. This is your current-year tentative Indiana Research Expense Tax Credit. Carry your pro-rata share of this amount to the appropriate line on your current-year annual income tax return.

S corporations, partnerships, limited liability companies, and limited liability partnerships must prorate the amount of computed research credit on line 27 among the shareholders, partners, or members, according to the percentage of distributive share of income and report their respective pro rata share on each Indiana K-1.

Enclose completed Schedule IT-20REC with the state income tax return along with a copy of federal Form 6765 or Form 8820.