

Schedule IT-20REC

State Form 49184
(R11 / 8-21)

Indiana Department of Revenue
Indiana Research Expense Tax Credit (#822)
(Enclose with annual income tax return)

Tax Period Ending

MM DD YYYY

Name(s) of Taxpayer Federal Employer Identification Number

Part I - Federal Reporting Information

Report how the research expense credit was reflected on your federal tax return. Place a check in each box that applies (see instructions). Maintain a complete explanation with your records if checking the box for Code 06 or 07.

Code 01 Code 02 Code 03 Code 04 Code 05 Code 06 Code 07

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

- A. The Indiana address(es) where the services are performed:
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 III - Computation of Indiana Credit for Increasing Research Activities
Qualified Regular Credit for Research Conducted in Indiana

Skip to line 14 if using the alternative incremental method.

- 1. Wage expense for qualified services
2. Cost of supplies
3. Rental or lease cost of computers
4. Enter the applicable portion of contract research expenses
5. Total qualified research expenses. Add lines 1 through 4
6. Enter fixed-base percentage attributable to Indiana, but not more than 16%
7. Enter average annual Indiana gross receipts for the 4 preceding tax years
8. Multiply line 7 by the percentage on line 6
9. Subtract line 8 from line 5. If zero or less, enter -0-
10. Multiply line 5 by 50% (.50)
11. Enter the smaller of line 9 or line 10
12. If the amount on line 11 is \$1 million or less, multiply line 11 by 15% (.15)
13a. If the amount on line 11 is greater than \$1 million, subtract one million from line 11
13b. Multiply line 13a by 10% (.10)
13c. Add line 13b and \$150,000

Round all entries

Table with 3 columns: Line number, Description, and Amount. Contains lines 1 through 13c.

Qualified Alternative Incremental Credit for Research Conducted in Indiana

- 14. Enter the wage expense for qualified services
15. Enter the cost of supplies
16. Enter the rental or lease cost of computers
17. Enter the applicable portion of contract research expenses
18. Total qualified research expenses. Add lines 14 through 17
19. Enter the average of qualified research expenses for the 3 preceding tax years
20. Multiply line 19 by 50% (.50)
21. Subtract line 20 from line 18
22. Multiply line 21 by 10% (.10)
23. If no Indiana qualified research expenses were made in any one of the 3 preceding tax years, multiply line 18 by 5% (see instructions)

Table with 3 columns: Line number, Description, and Amount. Contains lines 14 through 23.

Part IV - Indiana Qualified Research Expense Credit

24. Enter amount from line 12 or 13c (or line 22 or 23 if using alternative incremental method) ...



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Schedule IT-20REC Instructions Code #822

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)) incurred for research conducted in Indiana. "Base amount," effective July 1, 2005, means base amount (as defined in IRC Section 41(c)), 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.

For expenses incurred prior to Jan. 1, 2016, all references to the Internal Revenue Code are to the Internal Revenue Code in effect on Jan. 1, 2001.

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 (AGI) 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 their return. A pass-through entity 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 Schedule IN K-1 may claim their pro rata share of the credit with any carryover research expense credit on the Indiana individual return. Unlike the federal credit, beneficiaries of trusts and estates are not afforded this pass-through provision for state tax purposes. Partnerships, S corporations, and fiduciaries must enclose IT-20REC with their annual return. Partnerships and S corporations must also check the appropriate box on their annual return to indicate that the IT-20REC has been included with the 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. 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 year is applied against the taxpayer's tax liability for that year before any credit carryover is applied. 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 they were 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 Indiana 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 - Federal Reporting Information

Check the corresponding box for each applicable code that describes if, and if so, how the research expense credit was reflected on your federal income tax return. Maintain a complete explanation with your records if entering Code 06 or Code 07 as the department may request this information.

For purposes of the codes below, "computation of a positive federal credit" or similar language means a computation based on federal Form 6765 and supplied with the taxpayer's federal tax return for the year in which the federal tax return is filed. "Claiming the credit" or similar language means reporting the credit on the taxpayer's federal tax return. In the case of a pass-through entity such as an S corporation or partnership, "claiming the credit" means making the credit available for the shareholders or partners to use on their returns.

For purposes of codes 01, 03, 04, and 05, use of these codes require BOTH: (1) computation of a positive federal credit under either IRC Sections 41(a)(1) or 41(c)(4) and (2) the federal credit computation included all Indiana qualified research expenses claimed on this IT-20REC.

Schedule IT-20REC Instructions Code #822

Code How the research expense credit was reflected on your federal income tax return

- 01 The taxpayer used the entire allowable federal credit for the taxable year (or, in the case of a pass-through entity, passed through the credit). No other code should be entered.
- 02 No federal credit was claimed because both:
- (A) the federal qualified research expenses for the taxable year did not exceed the federal base amount under IRC section 41(c), and
 - (B) the computation under IRC section 41(c)(4) for the taxable year resulted in zero credit.
- 03 The credit was not claimed in full because there is no federal tax liability for the taxable year or the federal tax liability was less than the credit computed for federal purposes.
- 04 The credit was not claimed in full because although there was a federal tax liability for the taxable year, the tax liability was offset by other federal tax credits.
- 05 The credit for the taxable year was not claimed in full because of the limitation under IRC s. 41(g).
- 06 The credit was claimed for the taxable year but all or part of the Indiana expenses were not treated as federal expenses. **Note.** Maintain with your records an explanation detailing the reason not all of the Indiana expenses were treated as federal expenses.
- 07 Other, including circumstances in which federal elections relating to the federal research expense credit resulted in zero federal credit. This can include an election under IRC Section 41(h) to use a research expense credit against payroll taxes. **Note.** Maintain with your records an explanation detailing the other reason(s).

Part II - Qualified Research Activities in Indiana

Answer the 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 III - 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) incurred for research conducted in Indiana.

Qualified Regular Credit for Research Conducted in Indiana

Lines 1 - 13c. Complete these lines with respect to qualified research expense activities conducted in Indiana. If you elect to use the alternative incremental method for state tax purposes, skip lines 1 through 13c and continue to line 14.

Line 4. 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. For amounts paid or incurred by the taxpayer to a qualified research consortium, use 75% instead of 65%. For amounts paid to certain small businesses, universities, and federal laboratories, use 100% instead of 65%. See IRC Section 41(b)(3)(D) and (E).

Line 6. 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 three 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 6 is 16%.

Line 7. 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 6 and 7, 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 10 and 11. 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

As an alternative to the regular credit computation, for years beginning after Dec. 31, 2009, any taxpayer may compute the credit per provisions outlined in IC 6-3.1-4-2(d). To do so, complete the computation beginning on line 14. 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.

For years beginning prior to January 1, 2010, 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).

Line 23. If no Indiana qualified research expenses were made in any one (1) of the three (3) preceding tax years, the credit is 5% of the current year Indiana qualified research expenses. This line only applies to those claiming the credit under the alternative method per IC 6-3.1-4-2(d), not those in the aerospace industry claiming the alternative method under IC 6-3.1-4-2.5.

Part IV - Indiana Qualified Research Expense Credit

Line 24. 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 on line 24 among the shareholders, partners, or members, according to the percentage of distributive share of income and report their respective pro rata share on each Schedule IN K-1.

Carry pro rata distributive share of amount on line 24 plus any unused state carryover research expense credit to Form IT-20, IT-20NP, IT-40, or IT-40PNR.

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