



# Schedule RC Research Credit

Attach a copy of U.S. Form 6765. NOTE: Only basic research payments and qualified research expenses which are for research conducted in Massachusetts qualify for the credit.

Corporation name(s)	Federal Identification number
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- ▶ Corporation is electing to use in computing the fixed-base percentage and average annual gross receipts (check applicable box)
  - Massachusetts gross receipts  Federal gross receipts. See instructions to Part 2, lines 10 and 11.
- ▶  Check here if corporation is electing to calculate the credit separately for qualified defense-related activities and other activities. If making this election, file two Schedule RCs and check the appropriate box on each schedule.
  - Defense-related activities  Other qualified activities. See instructions.

## Part 1. Massachusetts Basic Research Payments

1 Basic research payments to qualified organizations	▶ 1	
2 Base period amount	▶ 2	
3 Incremental payments. Subtract line 2 from line 1. (Not less than "0")	3	
4 Tentative credit for basic research payments. Multiply line 3 by 15% (.15)	4	

## Part 2. Massachusetts Qualified Research Expenses

5 Wages for qualified services	5	
6 Cost of supplies	6	
7 Payments for computer use	7	
8 65% of contract expenses	8	
9 Total qualified research expenses. Add lines 5 through 8	▶ 9	
10 Enter fixed-based percentage, but not more than 16%	10	%
11 Enter average annual gross receipts	11	
12 Base amount. Multiply line 11 by the percentage in line 10. (Not less than 50% of line 9)	12	
13 Incremental qualified research expenses. Subtract line 12 from line 9	13	
14 Tentative credit for qualified research expenses. Multiply line 13 by 10% (.10)	▶ 14	

## Part 3. Research Credit — Limitations

15 Total current tentative research credit. Add lines 4 and 14	15	
16 Unused carryover credit (from 1998 Schedule RC, Column C)	▶ 16	
17 Total available credits. Add lines 15 and 16	▶ 17	
18 Excise before credit. Enter your 1999 excise here (from line 4 of Form 355A or 355B; or line 6 of Form 355S-A or 355S-B). If less than or equal to \$25,000, skip to line 22	18	
19 Excise subject to 75% limitation. If line 18 is greater than \$25,000, subtract \$25,000 from line 18	19	
20 75% limitation. Multiply line 19 by 75% (.75)	20	
21 Excise not subject to 75% limitation. Enter \$25,000	21	
22 Subtotal excise. Enter line 18 or the sum of lines 20 and 21, whichever applies	22	
23 Minimum excise limitations. (See instructions)	23	
24 Maximum allowable research credit. Subtract line 23 from line 22	24	
25 Allowable research credit. Use 15-year carryover amount in line 16 first, then use unlimited carryover amount in line 16, then use amount in line 15. If line 24 is less than line 17, use line 24	25	
26 Research credit taken against excise. See instructions. Enter on the Computation of Excise	26	

## Part 4. Research Credit — Carryovers

Credits should be used in the order in which they are listed in Part 4.

	Column A Credits available for 1999	Column B Credits used in 1999	Column C Carryover to 2000 Column A minus column B
15-year			
Unlimited			
Current year			

## Schedule RC General Information

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### What Is the Research Credit?

The Research Credit is a tax credit available to corporations who incur certain expenses for research conducted in Massachusetts. The credit closely parallels the federal research credit available under sec. 41 of the Internal Revenue Code as of August 12, 1991. While most definitions and calculations for the research credit are adopted from the federal provision, there are significant differences, such as the limitation that only expenses for research conducted in Massachusetts qualify for the credit. The credit is effective for expenses incurred on or after January 1, 1991.

For further information, see Massachusetts Regulation, 830 CMR 63.38M.1.

### Who Is Eligible for the Credit?

Any foreign or domestic corporation subject to the Massachusetts corporate excise under Chapter 63 of the General Laws is eligible for the credit. An S corporation may apply the research credit against its excise due under Chapter 63, but may not share any excess credit with its shareholders.

### How Is the Research Credit Determined?

Generally, the research credit adopts the definitions and calculations for the federal research credit under sec. 41 of the Internal Revenue Code as in effect on August 12, 1991.

### Effect of Election to Use Massachusetts Gross Receipts

Starting with tax years beginning on or after January 1, 1997, an election to use Massachusetts gross receipts is generally binding for only three years, at which time the corporation may prospectively make a new choice to use Massachusetts Gross Receipts or federal gross receipts in the calculation. Generally, such a change may not be made on an amended return, however, under certain circumstances a corporation may be permitted to change its method of calculation on an amended return for the 1997 tax year. See 830 CMR 63.38M.1(5)(d)3, as amended October 2, 1998.

### Separate Calculation for Defense-Related Activities and Other Qualified Activities

Under legislation approved in November of 1995, eligible corporations may, for taxable years beginning on and after January 1, 1995, calculate the research credit separately for their defense-related and their non-defense-related activities.

In general, defense-related activities include those activities occurring in Massachusetts in connection with researching, developing and producing for sale equipment for NASA or certain military arms, pursuant to a contract or subcontract. For purposes of calculating the credit, military arms are arms, ammunition, or implements of war specifically designed, modified, or equipped for military purposes and designated in the munitions list published pursuant to 22 U.S.C. 2778.

A corporation making this election must file two copies of Schedule RC. On the first schedule complete Part 1 for basic research payments and complete Part 2 with information on qualified research expenses for defense-related activities. On the second schedule, complete Part 2 (only) for non-defense-related activities. Parts 3, 4 and 5 of the first Schedule RC should contain combined information from Part 2 of both schedules. Do not complete Parts 1, 3, 4 and 5 of the second schedule.

Corporations making this election must also maintain complete records of supporting data including the accounting methods used in calculating the credit.

### Amount of Credit

The credit equals:

- 15% of incremental basic research expenses; **plus**
- 10% of incremental qualified research expenses.

Basic research payments and qualified research expenses are defined under IRC, sec. 41. Only incremental expenses (expenses which exceed certain base amounts) qualify for the credit.

### Limitations on Applying the Credit Against Excise

The credit is limited to the first \$25,000 of excise plus 75% of any excise in excess of \$25,000. In addition, the credit cannot reduce the minimum excise of \$456.

### Are Research Credit Carryovers Allowed?

Yes. The research credit cannot reduce the corporation's excise below the minimum excise and cannot reduce the excise over \$25,000 by more than 75%. Credits which exceed these limitations can be carried over to future tax years and applied against the corporate excise. There are two types of carryovers:

#### Unlimited Carryover

A corporation may carry over for an unlimited period of time any portion of the credit which is disallowed under the 75% limitation. Credits disallowed under the 75% limitation equal 25% of the corporation's excise which exceeds \$25,000.

#### 15-Year Carryover

Any credits disallowed which are not given unlimited status, may be carried forward for fifteen years.

### Interaction With Current Year Credit

Where a corporation has available both an amount of credit generated in the current taxable year and an amount of credit carried over from previous taxable years, the corporation must apply any 15-year carryover amounts and then any unlimited carryover amounts before applying the amount of credit generated in the current taxable year.

### Recordkeeping Requirements

Corporations claiming the Research Credit must maintain adequate records to substantiate the calculation of the credit. For detailed information on recordkeeping requirements, see 830 CMR 63.38M.1(14), as amended October 2, 1998.

### What Form Do I File?

A single corporation should file Form RC, Research Credit, in order to claim the Massachusetts Research Credit.

Any corporation which is a member of a controlled group or which is under common control with any trade or business (whether or not incorporated) must file Form RC-A, Research Credit — Aggregation, in order to claim the Massachusetts Research Credit. Controlled groups or businesses under common control are treated as a single taxpayer for purposes of determining the allowable Research Credit.

## Schedule RC Line Information

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### Part 1. Massachusetts Basic Research Payments

#### Line 1

Enter the amount of basic research payments which relate to basic research activity conducted in Massachusetts. These expenses must qualify under section 41(e)(2) of the Internal Revenue Code (IRC).

#### Line 2

Enter the base period amount, as defined under section 41(e) of the IRC, which includes only expenses attributable to research activity conducted in Massachusetts and payments made to organizations organized under the laws of Massachusetts. For taxable years beginning before January 1, 1991, and ending before December 31, 1991, only, the base period amount shall be multiplied by a fraction, the numerator of which is the number of days in such taxable year beginning on or after January 1, 1991, and the denominator of which is the total number of days in such taxable year.

See Massachusetts Regulation, 830 CMR 63.38M.1(6) for further information.

#### Line 3

Subtract line 2 from line 1 and enter the difference here. This amount is the incremental basic research payments which qualify for the credit.

#### Line 4

Multiply line 3 by 15% (.15) and enter the result here. This amount equals the credit for basic research payments before any limitations.

### Part 2. Massachusetts Qualified Research Expenses

#### Line 5

Enter the amount of wages paid for qualified services, as defined by section 41(b)(2)(B) of the IRC, performed in Massachusetts.

#### Line 6

Enter the amount paid for supplies, as defined by section 41(b)(2)(C) of the IRC, used or consumed in Massachusetts in conducting qualified research.

#### Line 7

Enter the amounts paid for the right to use computers located in Massachusetts in the conduct of qualified research that takes place in Massachusetts, to the extent such amounts are treated as in-house research expenses under section 41(b)(2)(A)(iii) of the IRC.

#### Line 8

Enter sixty-five percent of amounts paid to others as contract research expenses, as defined by section 41(b)(3) of the IRC, to the extent attributable to research activity conducted at a research facility located in Massachusetts. Also include 65% of that portion of the line 1 basic research payments which does not exceed the line 2 base amount, as allowed under section 41(e)(1)(B) of the IRC.

#### Line 9

Add lines 5 through 8. This amount equals your total qualified research expenses.

#### Line 10

The Massachusetts fixed-based percentage is determined by dividing the corporation's aggregate Massachusetts qualified research expenses for all taxable years beginning after December 31, 1983, and before January 1, 1989, by the corporation's aggregate gross receipts for such taxable years. A corporation may elect to compute gross receipts using only those gross receipts attributable to Massachusetts sales. The election must be made when filing the return for the first taxable year for which the credit is claimed by checking the appropriate box on Schedule RC. The Massachusetts fixed-based percentage for start-up companies is three percent. See Massachusetts Regulation 830 CMR 63.38M.1(5)(c)2., for the definition of start-up companies. If a corporation cannot compute the Massachusetts fixed-based percentage due to inadequate accounts and records for the base period, the Massachusetts fixed-based percentage is sixteen percent. **Note:** The percentage should be rounded to the nearest  $\frac{1}{100}$  of 1 percent and cannot exceed 16%.

#### Line 11

Enter the corporation's average annual gross receipts for the four taxable years preceding the taxable year for which the credit is being determined. A corporation may elect to compute gross receipts using only those gross receipts attributable to Massachusetts sales. The election must be made when filing the return for the first taxable year for which the credit is claimed by checking the appropriate box on Schedule RC.

#### Line 12

Multiply line 11 by the percentage in line 10. Enter the greater of this amount or 50% of the qualified research expenses in line 9. The base amount cannot be less than 50% of the current year qualified research expenses. For taxable years beginning before January 1, 1991, and ending before December 31, 1991, only, the Massachusetts qualified research base period amount shall be multiplied by a fraction, the numerator of which is the number of days in such taxable year beginning on or after January 1, 1991, and the denominator of which is the total number of days in such taxable year.

#### Line 13

Subtract line 12 from line 9. This amount equals the incremental qualified research expenses which qualify for the credit.

#### Line 14

Multiply line 13 by 10% (.10). This amount equals the credit for qualified research expenses before any limitations.

### Part 3. Research Credit — Limitations

#### Line 15

Add lines 4 and 14. This amount equals your total basic and qualified research credit before any limitations.

#### Line 16

Enter the amount of the unused credit from your 1998 Schedule RC, Column C.

#### Line 17

Add lines 15 and 16. This is the total current tentative research credit.

#### Line 18

Excise before credit. Enter the 1999 excise. If excise is less than or equal to \$25,000, skip to line 22.

#### Line 19

If line 18 is greater than \$25,000, subtract \$25,000 from line 18 and enter the difference. This amount equals the portion of your excise which is subject to the 75% limitation. Skip line 19 if your excise before credits was less than or equal to \$25,000.

#### Line 20

Multiply line 19 by 75% (.75). This amount equals the portion of your excise that exceeds \$25,000, which can be offset by the Research Credit. Skip line 20 if your excise before credits was less than or equal to \$25,000.

#### Line 21

Enter \$25,000. This amount of excise is not subject to the 75% limitation. Skip line 21 if your excise before credits was less than or equal to \$25,000.

#### Line 22

Enter line 18 if your excise before credits in line 18 was less than or equal to \$25,000. Otherwise, enter the sum of lines 20 and 21.

#### Line 23

A corporation cannot reduce its corporate excise below the minimum excise of \$456. Depending on the interaction between this limitation, the 75% limitation and whether the corporation qualifies for other types of credits, the amount entered in line 23 will vary. For example, ABC Co. has \$50,000 of excise and \$100,000 of research credits. After applying the 75% limitation, ABC Co. will be allowed a \$43,750 credit against its excise (\$25,000 plus \$18,750 (75% x \$25,000)). This will reduce ABC Co.'s excise to \$6,250, which is above the minimum excise. ABC Co. will enter "0" in line 23.

However, DEF Co. has \$26,000 of excise and \$100,000 of Research Credits. After applying the 75% limitation, DEF Co. will be allowed a \$25,750 credit against its excise (\$25,000 plus \$750 (75% x \$1,000)). This will reduce DEF Co.'s excise to \$250 which is \$206 below the minimum excise. DEF Co. will enter \$206 in line 23.

If a corporation qualifies for several credits, which combined with the allowable research credit would reduce the corporate excise below the minimum excise, a choice must be made as to which credits will be disallowed because of the minimum excise limitation.

For example, XYZ Co. with \$1,000 of corporate excise, \$1,000 of vanpool credits and \$1,000 of research credits could apply \$544 of vanpool credits to the corporate excise. XYZ Co. would then carry forward \$1,000 of research credits. XYZ Co. would enter "0" in line 23 of its Schedule RC because the minimum excise limitation was applied to the vanpool credits.

#### Line 24

Subtract line 23 from 22. This is the maximum allowable research credit after limitations.

#### Line 25

Allowable research credit. Enter line 17 or 24, whichever is less. If the research credit is the only credit your corporation is taking this year, this amount will equal the amount of credit taken against your excise in line 26.

#### Line 26

The amount of research credit actually taken against the corporate excise may be less than the amount in line 24 if the corporation qualifies for several credits. A corporation may choose which type of credit to apply against its excise when the sum of its credits exceeds its excise. For example, ABC Co. is allowed to use \$1,000 of credits to reduce its excise and has \$5,000 of investment tax credits which can be carried forward for three years compared to research credits which can be carried forward for 15 years. In this example, ABC Co. would enter "0" in line 26.

### Part 4. Research Credit — Carryover

Any research credits generated by the corporation in prior years must be used before any current credits are used. Therefore, the company must exhaust the amounts in the "Carryover Year" row of the Carryover Reconciliation.

If the corporation has excise remaining that can be offset by the research credit from the current year, the corporation may use such credits to the extent that it does not reduce the excise below the minimum excise of \$456 or any limitations set forth in 830 CMR 63.38M.1.