



# Instructions for Schedule RC-A Research Credit — Aggregation

2006

Massachusetts

Department of

Revenue

Only basic research payments and qualified research expenses which are for research conducted in Massachusetts qualify for the 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 this aggregation form. Controlled groups or businesses under common control are treated as a single taxpayer for purposes of determining the allowable Research Credit.

## What Is the Research Credit?

The Research Credit is a tax credit available to corporations who incur expenses for research conducted in Massachusetts. The credit closely parallels the federal research credit available under section 41 of the Internal Revenue Code (IRC) 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 additional information on the Research Credit see Regulation 830 CMR 63.38M.1.

## Who Is Eligible for the Credit?

Any foreign or domestic corporation subject to the excise under chapter 63 of the Massachusetts 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.

## Who Must File the Schedule RC-A, Research Credit-Aggregation?

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 Schedule 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.

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

## 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 IRC as in effect on August 12, 1991. Only research expenses for research conducted in Massachusetts qualify for the credit.

Controlled groups or businesses under common control are treated as a single taxpayer for purposes of determining the allowable research credit. The expenses and activities of each entity in the group are aggregated in order to treat the group as a single entity for purposes of calculating the Research Credit.

## 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. See Regulation 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-A. On the first schedule complete lines 1 through 4 for basic research payments, and complete lines 5 through 14 with information on qualified research expenses for defense-related activities. On the second schedule, complete lines 5 through 14 for non-defense-related activities. Lines 15 through 33 of the first Schedule RC-A should contain combined information from lines 5 through 14 of both schedules.

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, § 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. Corporations which are members under common control receive a prorated portion of the first \$25,000 of excise which can be 100% offset by the Research Credit. In addition, the credit cannot reduce the excise below the minimum excise of \$456.

Corporations which file a combined return may share excess credits. Each corporation must first apply its research credits against its individual excise. A member corporation may apply its excess research credit against the excise of another group member to the extent such other member can use additional credits under the research credit limitations.

## Are Research Credit Carryovers Allowed?

Yes. The research credit cannot reduce the corporation's excise below the minimum excise of \$456 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 Regulation 830 CMR 63.38M.1(14), as amended October 2, 1998.

## Schedule RC-A Line Information

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If there are more than two entities under common control, enclose as many RC-A Schedules as are needed but enter the aggregated line totals on the first RC-A Schedule.

## Massachusetts Basic Research Payments

### Line 1

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

### Line 2

Enter in line 2 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. There is only one base period amount calculation which aggregates the expenses and activities of the group.

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

### Line 3

Subtract line 2 from line 1C and enter the difference in line 3. This amount is the incremental basic research payments which qualify for the credit. There is only one incremental basic research payment amount for the group.

### Line 4

Multiply line 3 by 15% (.15) and enter the result in line 4. This amount equals the total group credit for basic research payments before any limitations. The credit will be allocated to individual Massachusetts corporations in lines 15 through 18.

## 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)(2)(C) of the IRC, to the extent attributable to research activity conducted at a research facility located in Massachusetts. Also include in line 8C, 65% of that portion of the line 1C basic research payments which does not exceed the line 2 base amount, as allowed under section 41(e)(1B) of the IRC.

**Line 9**

The amount in line 9C equals your total qualified research expenses.

**Line 10**

The Massachusetts fixed-based percentage is determined by dividing the group's aggregate Massachusetts qualified research expenses for all taxable years beginning after December 31, 1983, and before January 1, 1989, by the group's aggregate gross receipts for such taxable years. Corporations 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-A. The Massachusetts fixed-based percentage for start-up groups is three percent. See Regulation 830 CMR 63.38M.1(7) (g)3, for the definition of start-up groups. If any member of an aggregated group cannot compute the Massachusetts fixed-based percentage due to inadequate accounts and records for the base period, the Massachusetts fixed-based percentage of the aggregated group is 16%. Enter the group's Massachusetts fixed-based percentage in line 10.

**Note:** The percentage should be rounded to the nearest  $\frac{1}{100}$  of 1% and cannot exceed 16%.

**Line 11**

Enter the average annual gross receipts of the group for the four taxable years preceding the taxable year for which the credit is being determined. Corporations 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-A. Enter the group's average annual gross receipts in line 11.

**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 9C. The base amount cannot be less than 50% of the group's 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 9C. This amount equals the group's incremental qualified research expenses which qualify for the credit.

**Line 14**

Multiply line 13 by 10% (.10). This amount equals the total group credit for qualified research expenses before any limitations. The credit will be allocated to individual Massachusetts corporations in lines 15 through 18 of this form.

**Allocation Percentage**

Only corporations doing business in Massachusetts should complete lines 15 through 33. The research activities of all entities under common control are aggregated in lines 1 through 14 to calculate the total credit, however, only corporations doing business in Massachusetts actually apply the credit against the Massachusetts corporate excise.

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**Line 18**

Multiply line 17C by each corporation's allocation percentage in line 16.

**Combined filers:** Each corporation must first apply its research credits against its individual excise. However, a member corporation with an excess research credit may apply its excess research credit against the excise of another group member to the extent such other member can use additional credits under the research credit limitations. Make the necessary adjustments to each member's allocated credit in line 18 to reflect the sharing of these excess credits.

**Research Credit Limitations****Line 19**

Enter each corporation's excise before credits.

**Line 20**

Enter the unused credit from the 2005 Schedule RC-A, line 39.

**Line 21**

Add lines 18 and 20. This is the total available credit for 2006.

**Line 22**

Divide each corporation's line 19 by line 19C.

**Line 23**

Multiply \$25,000 by each corporation's percentage in line 22. This amount equals the portion of each corporation's excise which is not subject to the 75% limitation.

**Line 24**

If line 19 is greater than line 23, subtract line 23 from line 19. This amount equals the portion of a corporation's excise in line 19 which is subject to the 75% limitation. Otherwise, enter "0" and skip line 25.

**Line 25**

Multiply line 24 by 75% (.75). This amount equals the portion of the corporation's excise that exceeds \$25,000, which can be offset by the research credit.

**Line 26**

If line 19 is less than or equal to line 23, enter line 19. Otherwise enter the sum of lines 23 and 25.

**Line 27**

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 27 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% × \$25,000)). This will reduce ABC Co.'s excise to \$6,250, which is above the minimum excise. ABC Co. will enter zero "0" in line 27.

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% × \$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 27.

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 then enter zero in line 27 of its Schedule RC-A because the minimum excise limitation was applied to the vanpool credits.

**Line 28**

Subtract line 27 from line 26. This is the maximum allowable research credit after limitations.

**Line 29**

Enter line 21 or line 28, 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 30.

**Line 30**

The amount of research credit actually taken against the corporate excise may be less than the amount allowed in line 29 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 and \$5,000 of Research Credits. Generally, ABC Co. would use \$1,000 of Investment Tax Credits since Investment Tax Credits can be carried forward for three years, whereas Research Credits can be carried forward for 15 years. In this example, ABC Co. would enter zero in line 30.

**Research Credit Carryover**

Carryover research credits must be used before any current year credits are used in the current tax year.