



Schedule
IT-20REC
Revised 9-00
State Form 49184

Indiana Department of Revenue

Indiana Research Expense Tax Credit

Tax Year
Ending _____

Name(s) of Taxpayer

Federal Identification Number

PART I -- Qualified Research Activities

Questions must be answered in detail. Failure to answer questions may result in disallowance of credit. (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:

PART II -- Current Year Credit for Increasing Research Activities

1. Basic research payments paid or incurred to qualified organizations in the taxable year.....

2. Basic period amount.....

3. Subtract line 2 from line 1 - if less than zero, enter zero.....

Qualified research expenses paid or incurred in the taxable year (lines 4 through 7)

4. Wage for qualified services (do not include wages used in figuring the jobs credit).....

5. Cost of supplies.....

6. Rental or lease cost of computers.....

7. 65% of contract expenses.....

8. Total qualified research expenses - Add lines 4 through 7.....

9. Enter fixed-base percentage, but not more than 16% (see instructions).....

10. Enter average annual gross receipts (see instructions).....

11. Base amount-Multiply line 10 by the percentage on line 9.....

12. Subtract line 11 from line 8.....

13. Multiply line 8 by 50% (.50).....

14. Enter smaller of line 12 or 13.....

15. Add lines 3 and 14.....

Indiana Only
Qualified
Research
A.

Total Federal
Qualified
Research
B.

PART III -- Indiana Qualified Research Expense Activities

16. Enter Indiana apportionment percentage for the current year.....

%

17. Multiply line 15 column B by percentage on line 16.....

PART IV -- Indiana Research Expense Credit Computation

18. Enter smaller of amount on line 15 column A, or line 17.....

19. Allowable percentage for Indiana research expense tax credit.....

x 5%

20. Multiply line 18 by 5%, enter amount of current year tentative credit.....

Individuals should carry the amount on line 20 to the Indiana credits line on their Indiana Individual Income Tax Return, Form IT-40, IT-40PNR, or IT-40P. Corporations may claim this credit on the designated Indiana research expense credit line on Form IT-20, IT-20NP or IT-20SC. Partnerships and S Corporations must prorate the research credit on line 20 among their partners or shareholders. Trust and estates may claim this credit on the other credit line against their income tax liability on Form IT-41.

IT-20REC Instructions

Purposes of Schedule IT-20REC

Use Schedule IT-20REC to calculate your credit for increased research activities conducted in Indiana in your trade or business. The credit is 5% of the increase in qualified research expenses paid or incurred in the current year over the taxpayer's base amount.

The base amount will always be the same amount as is used for federal tax purposes, defined in Section 41(c) of the Internal Revenue Code. "Indiana qualified research expense" as used in these instructions, means expenditures incurred for research activities conducted in Indiana.

Who May File

An individual, a corporation, a trust, or a partnership that incurs Indiana research expense is entitled to a research expense credit. Qualified research expense is defined in Section 41(b) of the Internal Revenue Code. Schedule IT-20REC is comparable to federal Form 6765 used for claiming credit for increasing research activities.

The calculated Indiana research expense credit may be applied against the tax imposed by the Gross, Adjusted Gross and Supplemental Net Income Tax Acts. Any taxpayer claiming this credit for increasing research activities should attach this form to the income tax return. Partnership and S corporations will pass through to each partner or shareholder any remaining annual research expense credit multiplied by the percentage of income distribution to which the partner or shareholder is entitled.

Each individual partner or shareholder with a research expense credit amount shown on their Indiana K-1 may claim this credit along 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.

Carryover of Unused Credits

A taxpayer is not entitled to any carryback or refund of any unused credit. But this credit remains available against the total income tax liabilities of the taxpayer. 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, may be applied as a carryover credit.

It may be carried over to 15 succeeding taxable years following the unused credit year which generated the credit. The carryover credit must be reduced by the amount which was used as a credit during the immediately preceding tax year.

General Instructions

This schedule is to be used for tax years beginning after December 31, 1989. Except as otherwise provided in Indiana Code 6-3.1-4, the provisions of Section 41 of the Internal Revenue Code and promulgated regulations are applicable in the interpretation and administration by the Department of Revenue regarding this credit. This includes the transitional rules for determination of the base period. The credit, with the exception of the carryover provision, will expire December 31, 2002, unless it is extended by amendment to the Indiana Code.

Part I - Qualified Research Activities

Answer the four questions regarding research activities everywhere. Your response to these questions must be sufficiently detailed to provide the Department with the necessary information to determine if any qualified research expense activity was conducted in Indiana. Failure to answer these questions in detail may result in a longer processing time and/or the disallowance of the claimed credit.

Part II - Current Year Credit for Research Activities

All taxpayers should complete column A. All references to qualified research expenses incurred during the current year are intended to only include expenditures for research conducted in Indiana.

In determining whether the research is conducted in Indiana, the following factors should be considered:

1. The place(s) in Indiana where services are performed;
2. The Indiana location of the person(s) performing the services;
3. The Indiana location where qualified research supplies are consumed; and
4. Any other factors relevant to activities in Indiana.

Multi-state taxpayers will also complete column B. Column B should show research expenses everywhere as reported on federal Form 6765. The latter column will be reduced by the Indiana income apportionment percentage. These taxpayers are afforded a credit equal to the lesser amount from column A or B.

Line 1. Enter your current year payments. See IRC Section 41(e) for details.

Line 2. You must enter the same base period amount used for federal purposes in both columns.

Line 6. See IRC Section 41(b)(2)(A) for rules on leased property if you receive payments from anyone for the rental or lease of substantially identical property.

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).

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 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 for the 4 tax years proceeding the tax year for which the credit is being determined (called the credit year). You may be required to annualize gross receipts for any short tax year. See sections 41(c)(1)(B) and 41(f)(4) for details.

For 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, there shall be taken into account only gross receipts effectively connected with the trade or business within the U.S.

Line 13 & 14. Base period research expenses cannot be less than 50% of current year research expenses. This rule applies both to existing businesses and newly organized businesses. The credit is calculated on the difference between current year and base period expenses, or 50% of current year expenses; whichever is less.

Part III & IV - Computation of Indiana Qualified Research Expense Credit

Line 16. Enter your percentage of Indiana apportioned adjusted gross income from the current year annual tax return.

Line 18. Enter the lesser computed amount: line 15a (allocated Indiana qualified research expense) or line 17 (Indiana apportioned qualified research expense).

Line 19. Multiply line 18 by the standard allowable Indiana credit of 5%. Enter amount on line 20.

Line 20. This is your current year tentative Indiana Research Expense Tax Credit. Carry this amount to the appropriate line on your current year annual income tax return.

S corporations and partnerships must prorate the research credit on line 20 among the shareholders or partners to be reported on the Indiana K-1.

Attach copy of federal Form 6765 to the IT-20REC.