



Indiana Department of Revenue  
**Indiana Research Expense Tax Credit**

(Attach to annual income tax return)

Name(s) of Taxpayer	Federal Identification Number
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**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**  
**Regular Credit for Increasing Research Activities**

	Indiana Only Qualified Research A.	Total Federal Qualified Research B.
1. Basic research payments paid or incurred to qualified organizations in the taxable year.. 1		
2. Qualified organization base period amount (IRC Section 41(c) as of 1-1-2001) ..... 2B		
3. Subtract line 2B from line 1A. If less than zero, enter -0- ..... 3A		
4. Wage for qualified Services ..... 4		
5. Cost of supplies ..... 5		
6. Rental or lease cost of computers ..... 6		
7. Enter the applicable percentage of contract research expenses ..... 7		
8. Total qualified research expenses - Add lines 4 through 7 of Column A & B ..... 8		
<i>Skip lines 9-16 if using the alternative incremental method starting on line 17.</i>		
9. Enter fixed-base percentage, but not more than 16% ..... 9B		%
10. Enter average annual gross receipts for the four preceding tax years ..... 10B		
11. Multiply line 10B by the percentage on line 9B ..... 11B		
12. Subtract line 11B from line 8B. Enter result on line 12A. If zero or less, enter -0- ..... 12A		
13. Multiply line 8A by 50% (.50) ..... 13A		
14. Enter on line 14A the smaller of line 12A or line 13A ..... 14A		
15. Add lines 3A and 14A ..... 15A		
16. <b>Regular credit.</b> Multiply line 15A by 10% (.10), enter the result ..... 16A		

**Alternative Incremental Credit for Increasing Research Activities**

17. Enter amount from line 3A ..... 17A		
18. Multiply line 17A by 10% (.10) ..... 18A		
19. Enter average annual gross receipts for the four preceding tax years ..... 19B		
20. Multiply line 19B by 1% (.01). Enter the result on line 20A ..... 20A		
21. Subtract line 20A from Part II line 8A. Enter result on line 21A. If zero or less, enter -0-. 21A		
22. Multiply line 19B by 1.5% (.015). Enter the result on line 22A ..... 22A		
23. Subtract line 22A from line 8A. Enter result on line 23A. If zero or less, enter -0-. ..... 23A		
24. Subtract line 23A from line 21A ..... 24A		
25. Multiply line 19B by 2% (.02). Enter on line 25A ..... 25A		
26. Subtract line 25A from line 8A. Enter on line 26A. If zero or less, enter -0-. ..... 26A		
27. Subtract line 26A from line 23A ..... 27A		
28. Multiply line 24A by 2.65% (.0265) ..... 28A		
29. Multiply line 27A by 3.2% (.032) ..... 29A		
30. Multiply line 26A by 3.75% (.0375) ..... 30A		
31. <b>Alternative incremental credit.</b> Add lines 18A, 28A, 29A, and 30A ..... 31A		

**Part III - Indiana Qualified Research Expense Credit**

32. Enter amount from line 16A (or line 31A if using alternative incremental method) ..... 32A		
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Carry pro-rata distributive share of amount on line 32A plus any unused state carryover research expense credit to Form IT-20, IT-20NP, IT-40, IT-40PNR.

Partnerships (Form IT-65), S corporation (IT-20S) and Fiduciary (IT-41) must attach IT-20REC to the 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 and partner.

## IT-20REC Instructions (8-04)

### Purposes of Schedule IT-20REC

Use Schedule IT-20REC to calculate your credit for increased research activities conducted in Indiana. The credit is 10%, effective January 1, 2003, of the increase in Indiana qualified research expenses paid or incurred in the taxable year over the taxpayer's base amount everywhere, defined as follows.

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

"Base amount" means, for taxable years beginning after December 31, 1989, and is equal to the federal base amount as defined in IRC Section 41(c) as in effect January 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 adjusted gross income tax, 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 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 entitled to research expense credit as shown by an attachment to the Indiana K-1 may claim their pro rata share of the 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. 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 all other credits under IC 6-3.1-2 are applied first), may be carried over up to fifteen (15) succeeding taxable years. 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, 2002. Except as otherwise provided in IC 6-3.1-4, the provisions of IRC Section 41 as in effect January 1, 2001, 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 regarding research activities. Your response to these questions must be sufficiently detailed to provide the Department with the necessary information 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. Generally, Column A entries will reflect Indiana only qualified research expense calculations and Column B should relate to qualified research expenses everywhere as reported for federal tax purposes.

### Specific Line Instructions for Schedule IT-20REC

**Lines 1 - 8, Columns A and B.** All taxpayers will complete these lines. If a claimant elects to use the alternative incremental method for federal tax purposes, skip following lines 9 through 16; continue to line 17.

**Lines 7A and 7B.** 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 - 16.** Regular credit computation is continued by completing lines 9 through 16 and line 32A.

**Line 9B.** 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 9B is 16%.

**Lines 10B and 19B.** Enter the average annual gross receipts for the 4 tax years preceding 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 IRC Sections 41(c)(1)(B) and 41(f)(4) for details.

**Note:** For purposes of lines 9B and 10B, 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.

**Lines 13A & 14A.** 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.

**Lines 17 - 31.** The alternative incremental credit method picks up the common computational lines of 1 through 8 and line 10B. For lines 17 to 31 see instructional details to federal Form 6765.

### Part III - Indiana Qualified Research Expense Credit

**Line 32A.** 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 and partnerships must prorate the amount of computed research credit on line 32A among the shareholders or partners by reporting their respective pro rata share for each Indiana K-1.

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