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| Name(s) of Taxpayer | Federal Identification Number |
|---------------------|-------------------------------|

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 Research Conducted in Indiana

**Qualified Research
Expense within Indiana**

| | | |
|---|----|---|
| 1. Basic research payments paid or incurred to qualified organizations in the taxable period .. | 1 | |
| 2. Qualified organization base period amount attributable to Indiana | 2 | |
| 3. Subtract line 2 from line 1. If less than zero, enter -0- | 3 | |
| 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 | 8 | |
| <i>Skip lines 9-16 if using the alternative incremental method starting on line 17.</i> | | |
| 9. Enter fixed-base percentage attributable to Indiana, but not more than 16% | 9 | % |
| 10. Enter average annual Indiana gross receipts for the four preceding tax years | 10 | |
| 11. Multiply line 10 by the percentage on line 9 | 11 | |
| 12. Subtract line 11 from line 8. Enter result on line 12. If zero or less, enter -0- | 12 | |
| 13. Multiply line 8 by 50% (.50) | 13 | |
| 14. Enter on line 14 the smaller of line 12 or line 13 | 14 | |
| 15. Add lines 3 and 14 | 15 | |
| 16. Regular credit. Multiply line 15 by 10% (.10), enter the result | 16 | |

Alternative Incremental Credit for Research Conducted in Indiana

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

Part III - Indiana Qualified Research Expense Credit

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

Partnerships (Form IT-65), S corporations (IT-20S) and Fiduciaries (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, partner, or member of a limited liability company.

IT-20REC (Code #822) Instructions (7-05)

Purposes of Schedule IT-20REC

Use Schedule IT-20REC to calculate your credit for increased research activities conducted in Indiana. Effective January 1, 2003 until December 31, 2007, the credit is ten (10) percent of the increase in Indiana qualified research expenses paid or incurred in the taxable year over the taxpayer's base amount. **Caution:** Schedule IT-20REC, revised 8-04, must be used for taxable period before July 1, 2005.

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

"Base amount," effective July 1, 2005, means, base amount (as defined in IRC Section 41(c) as in effect January 1, 2001), 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 fifty (50) percent of the Indiana qualified research expense.

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 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 the annual income tax return. A pass-through entity (S corporation, partnership, limited liability company, limited liability partnership) 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 individual partner, shareholder or member 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 carry back 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 first applying all applicable credits under IC 6-3.1-2), may be carried over up to ten (10) succeeding taxable years. A credit earned by a taxpayer in a particular taxable year shall be applied against the taxpayer's tax liability for that year before any credit carryover is applied against that liability. All taxpayers with a remaining credit carryover on January 1, 2006 may carry the excess credit over not more than ten (10) taxable years following the year in which the taxpayer was first entitled to claim 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

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 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.

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

Part II - 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 as in effect on January 1, 2001) that is incurred for research conducted in Indiana.

Regular Credit

Lines 1 - 8. All taxpayers will complete these lines with respect to qualified research expense activities conducted in Indiana. If a claimant elects to use the alternative incremental method for federal tax purposes, skip following lines 9 through 16; continue to line 17.

Line 7. Include sixty-five (65) percent 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 sixty-five (65) percent 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 32.

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 three (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 (3) tax years between 1984 to 1988 in which the taxpayer had both gross receipts and qualified research expenses, the percentage is three (3) percent. 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 9 is sixteen (16) percent.

Lines 10 and 19. Enter the average annual gross receipts attributable to Indiana for the four (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 IRC Sections 41(c)(1)(B) and 41(f)(4) for details.

Note: 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.

Lines 13 and 14. Base period research expenses cannot be less than fifty (50) percent 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 fifty (50) percent of current year expenses; whichever is less.

Alternative Incremental Credit

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

Part III - Indiana Qualified Research Expense Credit

Line 32. 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 of computed research credit on line 32 among the shareholders, partners or members, according to the percentage of distributive share of income, and report their respective pro rata share on each Indiana K-1.