

Research & Development Tax Credit
(Credit for Increasing Research Activities)
Brief Fact Sheet Prepared by JFO/st

Federal R&D Credit

- First introduced in 1981 as a temporary tax credit. Congress has extended or reenacted the credit numerous times. Currently expired on December 31, 2013.

- Credit is for the sum of these three activities:
 - 1) 20% of qualified research expenses (QREs) which includes wages, supplies and contract research expenses
 - 2) 20% of the basic research payments (BRPs) – amounts paid by a company to a qualified organization to perform original investigation for the advancement of scientific knowledge. These institutions include institutions of higher education, tax-exempt non-profit scientific research organizations, and tax exempt grant organizations.
 - 3) 20% of the amounts paid to an energy research consortium (added 2005) these are any tax exempt non-profit organization that conducts energy research in the public interest.

- Credits are for the amount of QREs or BRPs over a base amount. The base amount is calculated differently for each and the rules have changed since the credit was initially enacted.

- In addition, the IRS allows taxpayers to deduct research and experimental expenses from their taxable income but not those expenses taken as a credit.

- Federal credit is non-refundable, but can be carried back 1 year and carried forward for up to 20 years.

Vermont R&D Tax Credit

- Added in 2009, effective for tax years 2011 and after. The credit is 30% of the federal credit amount and may be carried forward for up to 10 years. Available to both personal and corporate income taxpayers (see chart with TY2011 and TY 2012 data).

Other States

Most states, 43, offer an R&D specific incentive and 16 offer an R&D business tax incentive similar to Vermont. Others offer sales tax incentives. Most of the business credits are linked in some way to the federal credit – usually through federal definitions while a few states have unique state-designed credits. Most states modify the credit to apply to only in-state R&D activities. There are seven states with no R&D incentive (Alabama, Hawaii, Nevada, South Dakota, Texas, Tennessee, and Wyoming).

Of those with credits directly linked to the federal, seven states cap the overall amount of credits and an additional two states cap the amount per taxpayer.

These are: Delaware \$5 million cap; Florida \$9 million cap; Maryland \$6 million cap; New Hampshire \$1 million cap (manufacturing only); Pennsylvania \$55 million cap; Virginia \$5 million cap; and West Virginia \$2 million cap. States with a per taxpayer cap are Arizona \$2.5 million and Oregon \$1 million. All of the cap states have an application process and it appears that only FL approves these credits on a first come first serve basis.