

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, 2014. (Extended for 2014 on December 16, 2014 and is anticipated to be extended to 2015)
- 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. Credit reduced to 27% for tax year 2014 with a reporting requirement.

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.

Research and Development Tax Credit Comparison

updated 2014 session

State	Percentage of federal (some of unique rules)	Notes:
Alabama	N/A	
Alaska	18% of federal	
Arizona	24% of the first \$2.5 million of QREs 15% of amounts over \$2.5 million	\$2.5 million cap
Arkansas	20% of federal (plus additional credits)	
California	15% of CA QREs (slightly modified fed)	
Colorado	3% of CO expenditures	enterprise zones only
Connecticut	20% QREs; 25% for CT orgs, 1% - 6%	
Delaware	10% QREs or 50% of fed apportioned to DE	\$5 million cap
Florida	10% of federal	\$9 million cap
Georgia	10% of federal	
Hawaii	N/A	
Idaho	5% federal QRE; 5% research	
Illinois	6.5% of federal	
Indiana	15% of the first \$1 million QREs 10% above \$1 million	
Iowa	6.5% of federal	
Kansas	6.5% of federal	
Kentucky	5% of federal	
Louisiana	based on number of employees	
Maine	5% of QREs and 7.5% of instate research	
Maryland	3% of QREs and 10% of instate research	\$6 million cap
Massachusetts	10% federal QREs and 15% of research	
Michigan	N/A	
Minnesota	10% of the first \$2 million of QREs 2% of amounts over \$2 million	
Mississippi	based on number of employees	
Missouri	N/A	
Montana	State specific - no tax for first 5 years	
Nebraska	15% of QRE and 35% for instate research	
Nevada	N/A	
New Hampshire	10% of federal for manufacturing only	\$1 million cap
New Jersey	10% of QREs and 10% for instate research	
New Mexico	state specific	
New York	50% federal QRE and 3% in state research	must apply to Excelsior Jobs Program; prior credit was 9% for emerging tech

State	Percentage of federal (some of unique rules)	Notes:
North Carolina	1.25% for less than \$50 million QRE 2.25% for \$50-\$200 million 3.25% for more than \$200 million 20% for instate research	
North Dakota	25% first \$100K 8% over \$100K	
Ohio	7% of federal QREs	\$150K cap per taxpayer
Oklahoma	state specific 500 per employee	
Oregon	5% of QREs OR OR specific option	\$1 million cap per taxpayer
Pennsylvania	10% of federal QREs; 20% for small businesses	\$55 million cap
Rhode Island	22.5% of first \$111,111 and 16.9% over	
South Carolina	5% of QRE	
South Dakota	N/A	
Tennessee	N/A	
Texas	N/A	
Utah	5% of QREs and 7.5% of research	
Vermont	30% of federal	
Virginia	15% of the first \$167K and 20% of reseach instate	\$5 million cap
Washington	state specific	\$2 million per taxpayer
West Virginia	3% of all QRE or 10% over base amount (not fed)	\$2 million cap
Wisconsin	5% of federal - 10% for special circumstances	
Wyoming	N/A	

Primary source: Overview of R&D - TX LBB

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Research & Development Credits Summary; 04/14/2015
Vermont Department of Taxes

Research & Development Credits by Taxpayer

Tax Year 2011

Tax	Returns	Earned	Applied
Business Income	20	385,502	358,099
Corporate	11	1,788,573	1,760,810
Total	31	2,174,075	2,118,909

Tax Year 2012

Tax	Returns	Earned	Applied
Business Income	19	352,602	279,487
Corporate	11	2,196,968	1,979,380
Total	30	2,549,570	2,258,867

Tax Year 2013

Tax	Returns	Earned	Applied
Business Income	15	273,165	271,851
Corporate	16	1,501,946	1,365,402
Total	31	1,775,111	1,637,253

Research & Development Credits Summary; 04/14/2015
Vermont Department of Taxes

Research & Development Credits by NAICS Code

Tax Year 2011

NAICS Category	Returns	Earned	Applied
Manufacturing	21	505,911	476,910
Science/Technology/Retail/Wholesale/Other	10	1,668,164	1,641,999
Total	31	2,174,075	2,118,909

Tax Year 2012

NAICS Category	Returns	Earned	Applied
Manufacturing	17	640,319	572,907
Science/Technology/Retail/Wholesale/Other	13	1,909,251	1,685,960
Total	30	2,549,570	2,258,867

Tax Year 2013

NAICS Category	Returns	Earned	Applied
Manufacturing	15	397,844	364,845
Science/Technology/Retail/Wholesale/Other	16	1,377,267	1,272,408
Total	31	1,775,111	1,637,253