

## Overview of Vermont's R&D Credit

Vermont's Research and Development (R&D) Tax Credit is based on a percentage of the Federal Research Activities Credit for those qualifying expenditures that were made within Vermont. Since 2014, the Vermont credit has been set at 27% of the federal credit, and the administration is proposing to restore the credit back to its prior rate of 30%.

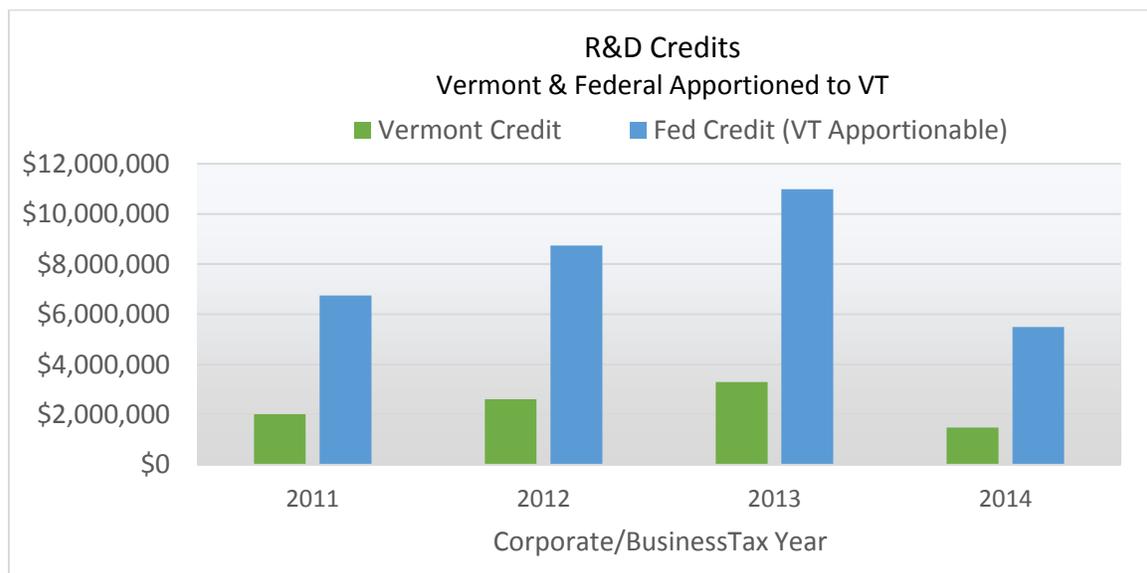
These credits are first claimed on Corporate and Business Income Tax returns, and they can be applied on both Corporate/Business and Individual Income Tax returns. Filers can carry the credit forward for 10 years, and they must attach a statement with their return, which requires a verification from the Department of Taxes.

### Recent History

The below chart and graph show the amount of Vermont R&D credits claimed over four recent tax years. They also show apportionable share of the federal credit. The Vermont credit amount would have been affected by the change in the percentage of the federal credit between 2013 and 2014 (30% vs. 27%). The federal credit apportionable to Vermont, however, would not have been directly affected by Vermont's percentage change, unless it is assumed that this drove a behavior shift. The Department has no indication that Vermont's policy change caused the dip in the apportioned federal credit.

	R&D Credits Applied: 2011-2014			
	30% of Federal			27%
	2011	2012	2013	2014
<b>Vermont Credit</b>	\$2,023,000	\$2,620,000	\$3,297,000	\$1,483,000
<b>Fed Credit (VT Apportionable)</b>	\$6,743,333	\$8,733,333	\$10,990,000	\$5,492,593

The decrease in the federal credit for Vermont shows that expenditures on Vermont R&D activity, which are used against corporate and business tax liabilities, are on the decline. Data for these figures was aggregated from the 2015 and 2017 Biennial Tax Expenditure reports.



### Shift to 30 Percent - \$175K Estimate

The Department of Taxes estimates in 2016 that shifting the R&D credit back to 30% of the federal credit would cost \$175K in FY18. This estimate was based on TY14 values, which appear to represent the new normal for R&D credits (without a systemic approach to increasing R&D activity in Vermont).

In TY14, taxpayers applied roughly \$1.571M in R&D tax credits. If the credit were 30% of the federal credit, those credits would have been valued at \$1.746M. The delta between 27% and 30% is therefore \$175K.

Although most corporate returns have yet to post for TY15, preliminary data indicates that total R&D credits applied will total roughly \$1.55M (based on posted and unposted returns for Corporate and Business Income filers). While this data is not final, it supports the estimate of \$175K for the following fiscal year.

### How the R&D Credit can be claimed and applied

Vermont's R&D Tax Credit is generally earned at the corporate or business level. It is then applied or carried forward at the corporate or business entity level, or it is passed on to other businesses or individuals who can apply it or carry it forward. In Vermont, the credit is generally first claimed on Vermont's Schedule BA-404, where it can then get passed through via a Vermont Schedule BA-406.

### Pertinent State Documents

- [VT Schedule BA-404](#): Corporate and Business Credits Earned, Applied, Expired, and Carried Forward
- [VT Schedule BA-404 Instructions](#)
- [VT Schedule BA-406](#): Credit Allocation Schedule
- [BA-406 Instructions](#)
- [32 VSA §5930ii](#): Statute for Vermont's Research and Development Tax Credit.

### Pertinent Federal Documents

- [Federal Form 6765](#): Credit for Increasing Research Activities
- [Instructions for Form 6765](#)
- [26 USC §41](#): Legal Language