

2000 Research and Development Expenses Credit

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General Instructions

ARS § 43-1168 provides a corporate income tax credit for an increase in qualifying research and development expenses in a taxable year.

The Arizona tax credit is allowed in an amount computed pursuant to IRC § 41 with the exceptions listed in ARS § 43-1168. The exceptions listed in ARS § 43-1168 are:

- Qualified research includes only research conducted in Arizona, including research conducted at a university in Arizona and paid for by the taxpayer. The term "qualified research," for purposes of the tax credit allowed by ARS § 43-1168, means qualified research, as defined in IRC § 41, that is conducted in Arizona and basic research, as defined in IRC § 41, that is conducted in Arizona.
- Two or more corporate taxpayers that share in the eligible expenses may claim their pro rata shares of the tax credit.
- For the first taxable year in which the taxpayer claims the credit, the maximum allowable credit is \$100,000. For the second taxable year in which the taxpayer claims the credit, the maximum allowable credit is \$250,000. For the third taxable year in which the taxpayer claims the credit, the maximum allowable credit is \$400,000. For each taxable year after the third taxable year in which the taxpayer claims the credit, the maximum allowable credit is \$500,000.
- Qualified research expenses that exceed the maximum allowable credit in a taxable year may be carried forward for not more than 15 taxable years. The term "qualified research expenses" means qualified research expenses incurred by the taxpayer for qualified research conducted in Arizona and basic research payments made by the taxpayer to universities and other qualified organizations for basic research conducted in Arizona.

- The credit allowed by ARS § 43-1168 applies only to expenses incurred from and after December 31, 1993 through December 31, 2003.
- The termination provisions of IRC § 41 do not apply.

The corporate income tax credit for research and development expenses is a nonrefundable tax credit. ARS § 43-1168 does not contain a provision that would permit a carryover of the tax credit.

Arizona statutes do not require an addition to Arizona gross income for the amount of qualified research expenses equal to the amount of the allowable Arizona research and development tax credit for the taxable year.

Who Should Complete This Form

Corporate taxpayers who incur qualifying research and development expenses may claim this credit. The credit is available only to taxpayers who file Forms 120, 120A, 120S, or 120X. While an S corporation may claim this credit, the S corporation may not pass the credit through to its shareholders.

If two or more taxpayers share in the eligible expenses, each taxpayer is eligible to receive a proportionate share of the credit. Each taxpayer sharing in the eligible expenses must complete this form and compute the credit based on its proportionate share of the expenses.

If two or more members of a unitary group or an Arizona affiliated group incur qualifying expenses, the individual members of the group are not considered separate taxpayers. When a combined return or a consolidated return is filed, the unitary group or the Arizona affiliated group is considered a single taxpayer.

Specific Instructions

Fill in the name and federal employer identification number as shown on Form 120, 120A, 120S or 120X. Indicate the period covered by the taxable year (in an MM/DD/YYYY format). Attach the completed form to the tax return.

All returns, statements, and other documents filed with the department require a taxpayer identification number (TIN). The TIN for a corporation or an S corporation is the taxpayer's federal employer identification number. Taxpayers that fail to include their TIN may be subject to a penalty.

Part I - Standard Credit Computation for Current Taxable Year Corporate Research and Development Expenses

For taxable years beginning after June 30, 1996, the taxpayer must use the standard credit computation unless the taxpayer makes an election to use the alternative credit computation.

Line 1 -

Corporate taxpayers (other than S corporations, personal holding companies and service organizations) may be eligible for a "basic research" credit if their payments made in cash to

a qualified university or scientific research organization (pursuant to a written contract) exceed a base period amount. The basic research payments must be made for research conducted in Arizona. Enter the amount of such payments on line 1.

Line 2 -

Enter the base period amount as defined by IRC § 41(e) that is based on Arizona research activity. The amount on line 2 (but not more than the amount on line 1), although not eligible for the basic research credit, can be treated as contract research expenses on line 7.

Line 4 -

Enter total wages paid or incurred for qualified services performed in Arizona. Do not include the amount of such wages paid to employees hired after September 30, 1996, that were used in the calculation of the federal work opportunity credit. Wages include any wages paid or incurred to an employee for qualified services performed by such employee. Qualified services consist of engaging in qualified research or engaging in the direct supervision or direct support of research activities which constitute qualified research.

Line 5 -

Enter the cost of supplies paid or incurred for use in the conduct of qualified research in Arizona. Supplies include expenditures for any tangible property other than land or improvements to land, and property of a character subject to the allowance for depreciation.

Line 6 -

Enter the amount paid or incurred to rent or lease the right to use computers in the conduct of qualified research in Arizona.

Line 7 -

Enter the total of:

- (a) Seventy-five percent (.75) of any amount paid or incurred for qualified research performed in Arizona by a qualified research consortium on the taxpayer's behalf. "Qualified research consortium" is any qualifying organization as defined in IRC § 41(b)(3)(C)(ii). Also include 75 percent of that portion of line 1, basic research payments paid to a qualified research consortium that does not exceed the line 2 base amount.
- (b) Sixty-five percent (.65) of any amount paid or incurred for qualified research performed in Arizona on the taxpayer's behalf, other than such amounts paid to a qualified research consortium. Prepaid contract research expenses are considered paid in the year the research is actually done. Also include 65 percent of that portion of line 1, basic research payments that does not exceed the line 2 base amount, other than amounts paid to a qualified research consortium.

Line 9 -

Enter the average annual Arizona gross receipts for the four taxable years preceding the taxable year for which the credit

is being determined. The taxpayer may be required to annualize gross receipts for any short taxable year.

Line 10 -

Round off the percentage to the nearest one, one hundredth of one percent (four decimal places). Compute the fixed-base percentage as follows:

- **Existing firms** - An existing firm is one that had both Arizona gross receipts and Arizona qualified research expenses for at least three taxable years beginning after December 31, 1983, and before January 1, 1989. The fixed-base percentage is the ratio that the aggregate Arizona qualified research expenses for all taxable years beginning after 1983, and before 1989, bears to the aggregate Arizona gross receipts for such taxable years.
- **Start-up companies** - A start-up company is one that had both Arizona gross receipts and Arizona qualified research expenses either (1) for the first time in a taxable year beginning after December 31, 1983, or (2) for fewer than three taxable years beginning after 1983 and before 1989.

Fixed-Base Percentages for Taxable Years Beginning After 1993 in Which Start-Up Companies Incurred Arizona Qualified Research Expenses	
Taxable Year After 1993	Percentages for Taxable Years After 1993
1st through 5th	3 percent
6th	1/6 of the percentage which the aggregate Arizona qualified research expenses for 4th and 5th taxable years is of aggregate Arizona gross receipts for 4th and 5th taxable years.
7th	1/3 of the percentage which the aggregate Arizona qualified research expenses for 5th and 6th taxable years is of aggregate Arizona gross receipts for 5th and 6th taxable years.
8th	1/2 of the percentage which the aggregate Arizona qualified research expenses for 5th through 7th taxable years is of aggregate Arizona gross receipts for 5th through 7th taxable years.
9th	2/3 of the percentage which the aggregate Arizona qualified research expenses for 5th through 8th taxable years is of aggregate Arizona gross receipts for 5th through 8th taxable years.
10th	5/6 of the percentage which the aggregate Arizona qualified research expenses for 5th through 9th taxable years is of aggregate Arizona gross receipts for 5th through 9th taxable years.
All years after 10th	Percentage which the aggregate Arizona qualified research expenses for any 5 taxable years selected by the taxpayer from among the 5th through 10th taxable years is of the aggregate Arizona gross receipts for the selected taxable years.

If the percentage computation involves de minimis amounts of gross receipts and qualified expenses in a taxable year or short taxable years are involved, the amounts may be annualized or disregarded. Refer to IRC §§ 41(c)(3) and 41(f)(4) for details.

NOTE: *The maximum percentage that can be entered on line 10 is 16 percent (.16).*

Line 13 -

Multiply line 8 by 50 percent (.50). The base amount cannot be less than 50 percent of the current year qualified research expenses. This rule applies both to existing and start-up companies.

Line 17 -

Enter the applicable amount.

- If this is the first taxable year in which a taxpayer is claiming the credit, the maximum allowable credit is \$100,000.
- If this is the second taxable year in which a taxpayer is claiming the credit, the maximum allowable credit is \$250,000.
- If this is the third taxable year in which a taxpayer is claiming the credit, the maximum allowable credit is \$400,000.
- For each taxable year after the third taxable year in which the taxpayer claims the credit, the maximum allowable credit is \$500,000.

Part II - Alternative Credit Computation for Current Taxable Year Corporate Research and Development Expenses

The taxpayer may elect to compute the credit for current taxable year research and development expenses using the alternative credit computation for a taxable year beginning after June 30, 1996. The election applies to the taxable year in which it is made and to all subsequent taxable years, unless revoked with the consent of the department.

Line 19 -

Corporate taxpayers (other than S corporations, personal holding companies and service organizations) may be eligible for a "basic research" credit if their payments made in cash to a qualified university or scientific research organization (pursuant to a written contract) exceed a base period amount. The basic research payments must be made for research conducted in Arizona. Enter the amount of such payments on line 19.

Line 20 -

Enter the base period amount as defined by IRC § 41(e) that is based on Arizona research activity. The amount on line 20 (but not more than the amount on line 19), although not eligible for the basic research credit, can be treated as contract research expenses on line 26.

Line 23 -

Enter total wages paid or incurred for qualified services performed in Arizona. Do not include the amount of such wages paid to employees hired after September 30, 1996, that were used in the calculation of the federal work opportunity credit. Wages include any wages paid or incurred to an employee for qualified services performed by such employee. Qualified services consist of engaging in qualified research or engaging in the direct supervision or direct support of research activities which constitute qualified research.

Line 24 -

Enter the cost of supplies paid or incurred for use in the conduct of qualified research in Arizona. Supplies include expenditures for any tangible property other than land or improvements to land, and property of a character subject to the allowance for depreciation.

Line 25 -

Enter the amount paid or incurred to rent or lease the right to use computers in the conduct of qualified research in Arizona.

Line 26 -

Enter the total of:

- (a) Seventy-five percent (.75) of any amount paid or incurred for qualified research performed in Arizona by a qualified research consortium on the taxpayer's behalf. "Qualified research consortium" is any qualifying organization as defined in IRC § 41(b)(3)(C)(ii). Also include 75 percent of that portion of line 19, basic research payments paid to a qualified research consortium that does not exceed the line 20 base amount.
- (b) Sixty-five percent (.65) of any amount paid or incurred for qualified research performed in Arizona on the taxpayer's behalf, other than such amounts paid to a qualified research consortium. Prepaid contract research expenses are considered paid in the year the research is actually done. Also include 65 percent of that portion of line 19, basic research payments that does not exceed the line 20 base amount, other than amounts paid to a qualified research consortium.

Line 28 -

Enter the average annual Arizona gross receipts for the four taxable years preceding the taxable year for which the credit is being determined. The taxpayer may be required to annualize gross receipts for any short taxable year.

TIER 1 CREDIT COMPUTATION: The tier 1 credit is equal to 2.65 percent of so much of the qualified research expenses for the taxable year (line 27) as exceeds 1 percent of line 28 but does not exceed 1.5 percent of line 28. The taxpayer's qualified research expenses for the taxable year must exceed 1 percent of line 28 to qualify for the tier 1 credit.

Line 29 -

If the amount on line 27 is equal to or exceeds 1.5 percent of the amount on line 28, enter 1.5 percent (.015). If the amount

on line 27 exceeds 1 percent of the amount on line 28 but is less than 1.5 percent of the amount on line 28, enter the applicable percentage.

TIER 2 CREDIT COMPUTATION: The tier 2 credit is equal to 3.2 percent of so much of the qualified research expenses for the taxable year (line 27) as exceeds 1.5 percent of line 28 but does not exceed 2 percent of line 28. The taxpayer's qualified research expenses for the taxable year must exceed 1.5 percent of line 28 to qualify for the tier 2 credit.

Line 34 -

If the amount on line 27 is equal to or exceeds 2 percent of the amount on line 28, enter 2 percent (.02). If the amount on line 27 exceeds 1.5 percent of the amount on line 28 but is less than 2 percent of the amount on line 28, enter the applicable percentage.

TIER 3 CREDIT COMPUTATION: The tier 3 credit is equal to 3.75 percent of so much of the qualified research expenses for the taxable year (line 27) as exceeds 2 percent of line 28. The taxpayer's qualified research expenses for the taxable year must exceed 2 percent of line 28 to qualify for the tier 3 credit.

Line 44 -

If this is the first taxable year in which a taxpayer is claiming the credit, the maximum allowable credit is \$100,000. If this is the second taxable year in which a taxpayer is claiming the credit, the maximum allowable credit is \$250,000. If this is the third taxable year in which a taxpayer is claiming the credit, the maximum allowable credit is \$400,000. For each taxable year after the third taxable year in which the taxpayer claims the credit, the maximum allowable credit is \$500,000. Enter the applicable amount.

Part III - Computation of Excess Qualified Research Expenses for Current Taxable Year for Standard Credit Computation

Complete this section if the standard computation tentative credit for current taxable year qualified research expenses (Part I, line 16) is greater than the maximum allowable credit for the current taxable year (Part I, line 17).

Qualified research expenses that exceed the maximum allowable credit in a taxable year may be carried forward for not more than 15 taxable years.

The amount of qualified research expenses in excess of the maximum allowable credit is determined by subtracting the total qualified research expenses used to compute the maximum allowable credit from the qualified research expenses in excess of the base amount.

The following examples illustrate the computation of the allowable credit and the computation of the excess qualified research expenses that are subject to the 15 taxable year carryforward.

EXAMPLE 1: Corporation R incurs \$2,500,000 in qualified research expenses and \$1,500,000 in basic research payments for the taxable year ending March 31, 2001. This is the second taxable year in which Corporation R is claiming the credit and, therefore, the maximum allowable credit for this taxable year is \$250,000.

The basic research payment credit computation and the qualified research expense credit computation, as provided by IRC § 41, are shown separately in an abbreviated format for ease in illustration of the excess qualified research expense computation.

Basic Research Payment (BRP) Credit Computation		
Basic research payments		\$ 1,500,000.00 *
Qualified organization base period amount	-	600,000.00
Excess BRP	=	900,000.00
	x	.20
Computed BRP credit	=	\$ 180,000.00

* \$600,000 of the \$1,500,000 in basic research payments incurred by the taxpayer are treated as contract research expenses for the qualified research expense credit computation as provided by IRC § 41.

Qualified Research Expense (QRE) Credit Computation		
Qualified research expenses		\$ 2,500,000.00
Contract research expenses (65%)	+	390,000.00
Total QRE	=	2,890,000.00
Base amount	-	1,700,000.00
Excess QRE	=	1,190,000.00
	x	.20
Computed QRE credit	=	\$ 238,000.00

Allowable Research Credit		
Total computed research credit (BRP + QRE)	=	\$ 418,000.00
This is the second taxable year in which Corporation R is claiming the credit, and, therefore, the maximum allowable credit is \$ 250,000.00.		
Maximum allowable credit (BRP + QRE)	=	\$ 250,000.00
Qualified research expenses that exceed the maximum allowable credit in a taxable year may be carried forward for not more than 15 taxable years.		

Computation of Excess Qualified Research Expenses Subject to Carryforward		
Maximum allowable credit (qualified research expenses of \$1,250,000 x .20)	=	\$ 250,000.00
Qualified research expenses in excess of base amount (excess BRP of \$900,000 + excess QRE of \$1,190,000)	=	\$ 2,090,000.00
Qualified research expenses used to compute maximum allowable credit	-	1,250,000.00
QRE in excess of maximum allowable credit	=	\$ 840,000.00
Corporation R has \$840,000 of excess qualified research expenses in the taxable year ending March 31, 2001, that are available to be carried forward for use in computing the maximum allowable credit in succeeding taxable years.		

EXAMPLE 2: Corporation L incurs \$700,000 in qualified research expenses and \$300,000 in basic research payments for the taxable year ending December 31, 2000. This is the first taxable year in which Corporation L is claiming the credit and, therefore, the maximum allowable credit for this taxable year is \$100,000.

The basic research payment credit computation and the qualified research expense credit computation, as provided by IRC § 41, are shown separately in an abbreviated format for ease in illustration of the excess qualified research expense computation.

Basic Research Payment (BRP) Credit Computation		
Basic research payments		\$ 300,000.00 **
Qualified organization base period amount	-	450,000.00
Excess BRP	=	0.00
	x	.20
Computed BRP credit	=	\$ 0.00

** The \$300,000 of basic research payments are treated as contract research expenses for the qualified research expense credit computation as provided by IRC § 41.

Qualified Research Expense (QRE) Credit Computation		
Qualified research expenses		\$ 700,000.00
Contract research expenses (65%)	+	195,000.00
Total QRE	=	895,000.00
Base amount	-	800,000.00
Excess QRE	=	95,000.00
	x	.20
Computed QRE credit	=	\$ 19,000.00

Allowable Research Credit		
Total computed research credit (BRP + QRE)	=	\$ 19,000.00
This is the first taxable year in which Corporation L is claiming the credit, and, therefore, the maximum allowable credit is \$ 100,000.00.		
Maximum allowable credit (BRP + QRE)	=	\$ 100,000.00
Qualified research expenses that exceed the maximum allowable credit in a taxable year may be carried forward for not more than 15 taxable years.		

Computation of Excess Qualified Research Expenses Subject to Carryforward		
Maximum allowable credit (Qualified research expenses of \$500,000 x .20)	=	\$ 100,000.00
Qualified research expenses in excess of base amount (excess QRE of \$95,000)	=	\$ 95,000.00
Qualified research expenses used to compute maximum allowable credit	-	500,000.00
QRE in excess of maximum allowable credit	=	\$ 0.00
Corporation L does not have any excess qualified research expenses in the taxable year ending December 31, 2000.		

Line 46 -

Enter the qualified research expenses in excess of the base amount (the amount from Part I, line 15).

Line 47 -

Enter the total qualified research expenses used to compute the maximum allowable credit for the current taxable year. If this is the first taxable year in which a taxpayer is claiming the credit, enter \$500,000. If this is the second taxable year in which a taxpayer is claiming the credit, enter \$1,250,000. If this is the third taxable year in which a taxpayer is claiming the credit, enter \$2,000,000. For each taxable year after the third taxable year in which a taxpayer claims the credit, enter \$2,500,000.

Line 48 -

Subtract the amount on line 47 from the amount on line 46. Enter the difference. This is the amount of excess qualified research expenses for the current taxable year that is available to be carried forward by the taxpayer.

Part IV - Computation of Excess Qualified Research Expenses for Current Taxable Year for Alternative Credit Computation

Complete this section if the alternative computation tentative credit for current taxable year qualified research expenses (Part II, line 43) is greater than the maximum allowable credit for the current taxable year (Part II, line 44).

Qualified research expenses that exceed the maximum allowable credit in a taxable year may be carried forward for not more than 15 taxable years.

The amount of qualified research expenses in excess of the maximum allowable credit is determined by subtracting the total qualified research expenses used to compute the maximum allowable credit from the qualified research expenses in excess of the base amount.

The following example illustrates the computation of the allowable credit and the computation of the excess qualified research expenses that are subject to the 15 taxable year carryforward.

EXAMPLE: Corporation R incurs \$3,500,000 in qualified research expenses and \$1,500,000 in basic research payments for the taxable year ending July 31, 2001. This is the second taxable year in which Corporation R is claiming the credit and, therefore, the maximum allowable credit for this taxable year is \$250,000.

The basic research payment credit computation and the qualified research expense credit computation, as provided by IRC § 41, are shown separately in an abbreviated format for ease in illustration of the excess qualified research expense computation.

Basic Research Payment (BRP) Credit Computation		
Basic research payments		\$ 1,500,000.00 *
Qualified organization base period amount	-	600,000.00
Excess BRP	=	900,000.00
	x	.20
Computed BRP credit	=	\$ 180,000.00

* \$600,000 of the \$1,500,000 in basic research payments incurred by the taxpayer are treated as contract research expenses for the qualified research expense credit computation as provided by IRC § 41.

Qualified Research Expense (QRE) Credit Computation		
Qualified research expenses		\$ 3,500,000.00
Contract research expenses (65%)	+	390,000.00
Total QRE	=	\$ 3,890,000.00
Average annual gross receipts		\$ 16,000,000.00
Tier 1 credit:		
QRE (equal to 1.5% of average annual gross receipts)		\$ 240,000.00
Base amount (1% of average annual gross receipts)	-	160,000.00
Excess QRE	=	80,000.00
	x	.0265
Computed tier 1 QRE credit	=	\$ 2,120.00
Tier 2 credit:		
QRE (equal to 2% of average annual gross receipts)		\$ 320,000.00
Base amount (1.5% of average annual gross receipts)	-	240,000.00
Excess QRE	=	80,000.00
	x	.032
Computed tier 2 QRE credit	=	\$ 2,560.00
Tier 3 credit:		
QRE		\$ 3,890,000.00
Base amount (2% of average annual gross receipts)	-	320,000.00
Excess QRE	=	3,570,000.00
	x	.0375
Computed tier 3 QRE credit	=	\$ 133,875.00
Total computed research credit (BRP + QRE)	=	\$ 318,555.00

Allowable Research Credit		
Total computed research credit (BRP + QRE)	=	\$ 318,555.00
This is the second taxable year in which Corporation R is claiming the credit, and, therefore, the maximum allowable credit is \$ 250,000.00.		
Maximum allowable credit (BRP + QRE)	=	\$ 250,000.00
Qualified research expenses that exceed the maximum allowable credit in a taxable year may be carried forward for not more than 15 taxable years.		

Computation of Excess Qualified Research Expenses Subject to Carryforward		
Maximum allowable credit (BRP of \$180,000 + QRE of \$70,000)	=	\$ 250,000.00 **
** Basic research payments of \$900,000 (\$900,000 x .20 = \$180,000) + qualified research expenses of \$1,901,867 [(\$80,000 x .0265 = \$2,120) + (\$80,000 x .032 = \$2,560) + (\$1,741,867 x .0375 = \$65,320)]		
Qualified research expenses in excess of base amount [excess BRP of \$900,000 + excess QRE of \$3,410,000 (\$3,570,000 - \$160,000)]	=	\$ 4,310,000.00
Qualified research expenses used to compute maximum allowable credit (BRP of \$900,000 + QRE of \$1,901,867)	-	2,801,867.00
QRE in excess of maximum allowable credit	=	\$ 1,508,133.00
Corporation R has \$1,508,133 of excess qualified research expenses in the taxable year ending July 31, 2001, that are available to be carried forward for use in computing the maximum allowable credit in succeeding taxable years.		

Line 49 -

Enter the qualified research expenses in excess of the base amount. This is the total of the amount from Part II, line 21, and the amount from Part II, line 40, less the total of the amount from Part II, line 32, and the amount from Part II, line 37.

Line 50 -

Enter the total qualified research expenses used to compute the maximum allowable credit for the current taxable year.

Line 51 -

Subtract the amount on line 50 from the amount on line 49. Enter the difference. This is the amount of excess qualified research expenses for the current taxable year that is available to be carried forward by the taxpayer.

Part V - Available Carryover of Excess Qualified Research Expenses From Prior Taxable Years

Qualified research expenses that exceed the maximum allowable credit in a taxable year may be carried forward for not more than 15 taxable years. Complete this section to compute the available carryover of excess qualified research expenses from prior taxable years.

Calculate the total available carryover of excess qualified research expenses in Part V, lines 52 through 67. Complete these lines, as applicable, if the taxpayer claimed the credit on a prior taxable year's tax return and had excess qualified research expenses.

Column (a): Enter the applicable taxable year(s) on lines 52 through 66.

Column (b): Enter the amount of excess qualified research expenses for each taxable year on lines 52 through 66.

Column (c): Enter the amount of excess qualified research expenses for each taxable year which has been previously used on lines 52 through 66.

Column (d): Enter the available carryover of excess qualified research expenses for each taxable year (subtract column (c) from column (b)). Then, add the amounts entered in column (d) of lines 52 through 66. Enter the total on line 67, column (d).

Part VI - Total Available Credit

Complete this section to compute the total available credit for the taxable year. The total available credit is the sum of the credit for current taxable year qualified research expenses and the credit for carryover of excess qualified research expenses.

Line 69 -

Complete this line only if the amount entered on line 68 is less than the maximum allowable credit for the current taxable year. The amount entered on line 69 cannot exceed the amount of expenses required to compute a credit equal to the difference between the credit amount on line 68 and the maximum credit for the current taxable year.

The following examples illustrate the computation of the amount to be entered on this line.

- Taxpayers using the **standard credit computation** should compute the amount to enter on line 69 according to **example 1**.
- Taxpayers using the **alternative credit computation** should compute the amount to enter on line 69 according to **example 2**.

EXAMPLE 1 (standard credit computation)

Taxpayer F, a fiscal year basis taxpayer, has a \$700,000 carryover of excess qualified research expenses from its taxable year 1999. The credit amount on line 68 (for the taxable year 2000) is \$150,000. This is the second taxable year in which taxpayer F is claiming the credit and, therefore, the maximum credit is \$250,000.

Taxpayer F may only use the amount of expenses required to compute a credit equal to the difference between the credit amount on line 68 and the maximum credit for the taxable year. Therefore, taxpayer F may only use \$500,000 of its \$700,000 carryover from the taxable year 1999. This is the amount of expenses required to compute a credit of \$100,000 ($\$500,000 \times .20 = \$100,000$), which is equal to the difference between the credit amount on line 68 (\$150,000) and the maximum credit for the taxable year (\$250,000).

EXAMPLE 2 (alternative credit computation)

Taxpayer H, a fiscal year basis taxpayer, has a \$3,900,000 carryover of excess qualified research expenses from its taxable year 1999. The credit amount on line 68 (for the taxable year 2000) is \$150,000. This is the second taxable year in which taxpayer H is claiming the credit and, therefore, the maximum credit is \$250,000.

Taxpayer H may only use the amount of expenses required to compute a credit equal to the difference between the credit amount on line 68 and the maximum credit for the taxable year. Therefore, taxpayer H may only use \$2,666,667 of its \$3,900,000 carryover from the taxable year 1999. This is the

amount of expenses required to compute a credit of \$100,000 ($\$2,666,667 \times .0375 = \$100,000$), which is equal to the difference between the credit amount on line 68 (\$150,000) and the maximum credit for the taxable year (\$250,000).

Line 70 -

Standard credit computation: Multiply the amount on line 69 by 20% (.20). Enter the result. This is the credit for carryover of excess qualified research expenses.

Alternative credit computation: Multiply the amount on line 69 by 3.75% (.0375). Enter the result. This is the credit for carryover of excess qualified research expenses.