



2008 Increase Research and Development Activities Credit

15-31-150, MCA

For tax year beginning _____ and ending _____

Name (as it appears on your tax return) _____

Your Social Security Number or Federal Employer Identification Number _____

If this credit is passed through to you from a partnership or S corporation, please indicate the name of the partnership or S corporation, FEIN, and your percentage of ownership in the partnership or S corporation.

Name _____ FEIN _____ Percent of Ownership _____ %

Part I – Credit Calculation for Basic Research Payments

See IRC § 41(e)

1. Enter the basic research costs that you paid or the expenses that you incurred to qualified organizations for basic research conducted in Montana (see instructions). 1. _____
2. Enter your qualified organization base period amount. 2. _____
3. Subtract line 2 from line 1 and enter the result. If less than zero, enter zero. 3. _____

Part II – Credit Calculation for Qualified Research Expenses

See IRC § 41(b)

4. Enter the wages that you paid for qualified services conducted in Montana (do not include wages used to compute the Federal Jobs Credit). 4. _____
5. Enter the cost of your supplies used for research activities in Montana. 5. _____
6. Enter the cost of your rental or lease of computers used for research activities in Montana (see instructions). 6. _____
7. Enter the applicable percentage of your contract research expenses incurred in Montana (see instructions). 7. _____
8. Total qualified research expenses. Add lines 4 through 7 and enter the result. 8. _____
9. Enter the fixed-base percentage, but not more than 16% (see instructions). 9. _____
10. Enter average Montana annual gross receipts. 10. _____
11. To determine your base amount, multiply line 10 by the percentage on line 9 and enter the result. . 11. _____
12. Subtract line 11 from line 8 and enter the result. 12. _____
13. Multiply the amount on line 8 by 50% (.50) and enter the result. 13. _____
14. Enter the smaller of line 12 or 13. 14. _____

Part III – Total Research and Development Tax Credit

15. Enter the total of lines 3 and 14. 15. _____
16. Multiply line 15 by 5% (0.05) and enter the result. 16. _____
17. Enter the research and development tax credit that you carried forward from a prior year and attach the schedule. 17. _____
18. Add lines 16 and 17 and enter the result. **This is your total available research and development activities credit.** Transfer to Form 2, Schedule V, for individuals; Form PR-1, Schedule II, for partnerships; Form CLT-4S, Schedule II, for S corporations; or Form CLT-4, Schedule C, for C corporations. 18. _____

When you file your Montana income tax return electronically, you represent that you have retained all documents required as a tax record and that you will provide a copy to the department upon request.

Information about this form

Use form RSCH to calculate and claim a credit for increasing the research and development activities of your trade or business. To compute your tax credit, complete Parts I through III.

Please note:

- You can claim a credit for only those research and development activities that are conducted in Montana.
- You must include a copy of the form that you filed with the Internal Revenue Service and supporting documents in order to claim this credit.
- Section references are to the Internal Revenue Code unless otherwise noted.

What are credits for Qualified Research Activities?

“Qualified research activities” means research for which your expenditures can be treated as IRC § 174 expenses. Your research must be undertaken to discover information that is technological in nature. Your intention for applying this research must be to develop a new or improved business component. All of the elements of this research must relate to a new or improved function, performance, reliability or quality. For in-house research expenses, you may meet the requirement if you incurred the expenses in carrying on a trade or business where your principal purpose is for conducting research and using the results of that research to actively conduct a future trade or business. The following activities do not qualify for the research and development tax credit:

- research conducted after commercial production has already begun
- research that adapts an existing product or process to a particular customer’s needs
- duplication of an existing product or process
- surveys or studies
- research that relates to a certain internal use of computer software
- research that is conducted outside of the State of Montana
- research in the social sciences, arts or humanities
- research that is funded by another person (or government entity)

See IRC § 41 for other definitions concerning this tax credit.

Who can claim this credit?

A corporation, individual, small business corporation, partnership, or limited liability company claiming a credit for increasing research activities should complete this form and attach it to their tax return.

For a small business corporation, partnership or limited liability company that claims credit for increasing research activities, the credit must be attributed to the individual shareholders, partners, members or managers in the same proportion that is used to report income or loss for Montana tax purposes. The allocations in IRC § 41(f) do not apply.

My tax credit exceeds my income tax liability. Can the unused credit be carried back or forward to another tax year?

If the research credit cannot be used because of tax liability limitations, it can be carried back two years and carried forward up to fifteen years. The entire amount of the credit that is not used in the year that it is earned must be carried first to the earliest tax year in which the credit can be applied and then to each succeeding year. Please attach a schedule that documents any credit carryover.

Instructions

Part I

Credit Calculation for Basic Research Payments

Line 1 - A corporation, individual, small business corporation, partnership or limited liability company is eligible for a “basic research” credit if the payments to a qualified university or scientific research organization (under a written contract) exceed a base period amount (based on general university giving and certain other maintenance-of-effort levels for three preceding years). Enter your payments for basic research conducted in Montana on line 1. See IRC § 41(e) for details.

Line 2 - Enter the base period amount as defined in IRC § 41(e). Line 2 cannot exceed the amount on line 1.

Part II

Credit Calculation for Qualified Research Expenses

Lines 4 through 7 - These lines pertain to qualified research expenditures paid or incurred for research activities that were conducted in Montana. For multi-state taxpayers, a by-state breakdown of wages, supplies and qualified research expenses must be submitted with this form.

Line 6 - See IRC § 41(b)(2)(A) for rules on leased property if the taxpayer received payments for the rental or lease of substantial identical property.

Line 7 - Include 65% (.65) of any amount that you paid or incurred for qualified research performed on your behalf. Prepaid tract research expenses are considered paid in the year that the research was actually done. Also include 65% (.65) of that portion of line 1 basic research payments that does not

exceed the line 2 base amount. See IRC § 41(e)(1) (B). However use 75% (.75) in place of 65% (.65) for payments made to a qualified research consortium. A qualified research consortium is a tax-exempt organization described in section 501(c)(3) or 501(c)(6) that is organized and operated primarily to conduct scientific research and is not a private foundation.

Line 9 - Compute the fixed-base percentage as follows: The fixed-base percentage for an existing company (any company that is not a start-up company) is calculated by dividing the aggregate qualified research expenses for tax years beginning after 1983 and before 1989 by the aggregate gross receipts for those tax years. For multistate taxpayers, a by-state breakdown of gross receipts is required. The allocation of sales to Montana in the by-state breakdown must conform to 15-31-311, MCA. Round off the percentage to the nearest 1/100 of 1% (0.0001) (i.e. four decimal places).

Start up companies - A start up company is a taxpayer that had both gross receipts and qualified research expenses either:

- for the first time in a tax year beginning after 1983, or
- for less than three tax years beginning after 1983 and before 1989.

For tax years beginning before January 1, 1994, the fixed-base percentage is 3% (0.03) if you have fewer than three taxable years beginning after December 31, 1983 and before January 1, 1989, in which you had both gross receipts and qualified research expenses. If the percentage computation involves insignificant amounts of gross receipts and qualified expenses in a tax year or short tax years are involved, see IRC § 41(c)(3) and 41(f)(4).

For tax years beginning after December 31, 1993, the fixed-base percentage is 3% (0.03) for each of the first five tax years for which there were qualified research expenses. However, the fixed-base percentage for the sixth through tenth years after 1993 in which the percentage (rounded to 1/100 of 1% (0.0001)) which qualified research expenses bear to gross receipts everywhere for specified preceding years as follows:

- for the sixth year, one-sixth of the percentage which qualified research expenses bear to gross receipts everywhere for its fourth and fifth years
- for the seventh year, one-third of the percentage which qualified research expenses bear to gross receipts everywhere for its fifth through seventh years
- for the eighth year, one-half of the percentage which qualified research expenses bear to gross

receipts everywhere for its fifth through seventh years

- for the ninth year, two-thirds of the percentage which qualified research expenses bear to gross receipts everywhere for its fifth through eighth years
- for the tenth year, five-sixths of the percentage which qualified research expenses bear to gross receipts everywhere for its fifth through ninth years

For subsequent tax years, the taxpayer's fixed-base percentage will be the whole percentage which qualified research expenditures bear to gross receipts everywhere for any five years selected by the taxpayer from the fifth through tenth tax years.

The maximum percentage that can be entered on line 9 is 16% (0.16).

Line 10 - Enter the average Montana annual gross receipts for the four tax years preceding the tax year for which the credit is being determined (called the credit year). You may be required to annualize your gross receipts for any short tax year. See IRC § 41(c)(1)(B) and 41(f)(4).

For purposes of lines 9 and 10, reduce Montana gross receipts everywhere for any tax year by returns and allowances made during the tax year. In the case of a foreign corporation, include only gross receipts that are effectively connected with the trade or business within the United States.

Line 13 - The base amount cannot be less than 50% (0.50) of the current year qualified research expenses. The rule applies to existing and newly organized businesses.

Part III

Total Research and Development Tax Credit

Transfer line 18 to Form 2, Schedule V, for individuals; Form PR-1, Schedule II, for partnerships; Form CLT-4S, Schedule II, for S corporations; or to Form CLT-4, Schedule C, for C corporations.

Mail to:

Montana Department of Revenue
PO Box 5805
Helena, MT 59604-5805

If you have questions, please call us toll free at (866) 859-2254 (in Helena, 444-6900).