

State of Rhode Island - Division of Taxation

Tax Credits/Deductions

Regulation CR 96-07

Research and Development Expenses Credit

I. GENERAL:

A credit is available to corporations, sole proprietors, or passed through from partnerships, joint ventures or subchapter S corporations for qualified research expenses. The credit is 5% of the excess (if any) of the qualifying research expenses in the taxable year over the base period expenses. The expenses must have been incurred in Rhode Island after July 1, 1994.

II. DEFINITIONS:

The terms "qualified research expenses" and "base period research expenses" shall have the same meaning as defined in section 41 of the Internal Revenue Code, provided, however, that such expenses shall have been incurred in this state after July 1, 1994.

III. CALCULATION OF THE CREDIT:

The credit is based on the amount of the taxpayer's Federal excess expenses and is calculated by first determining what of the taxpayer's Federal excess expenses were incurred in Rhode Island after July 1, 1994 and then multiplying that amount by the 5% rate to yield the Rhode Island credit.

EXAMPLE A: Taxpayer A has completed and claimed its Federal Section 41 credit and has qualified research expenses for its Federal credit of \$100,000; its Federal Section 41 base amount is \$75,000; all expenses were incurred in Rhode Island and were incurred evenly throughout 1995 and A has a calendar year end. Taxpayer A's 1995 RI R & D expense credit is calculated as:

Federal Qualified Research Expenses	\$ 100,000
Federal Base Amount	75,000
Federal Excess Expenses	25,000
Amount of Federal Excess Expenses in RI	25,000
Amount of Expenses in RI after 7/1/94	25,000
Credit @ 5%	1250

EXAMPLE B: Taxpayer B has a similar fact pattern to Taxpayer A above except that Taxpayer B has a March 31 year end. Taxpayer B's FYE 3/31/95 RI R & D expense credit is calculated as:

Federal Excess Expenses	\$ 25,000
Amount of Federal Excess Expenses in RI	25,000
Amount of Expenses in RI after 7/1/94	18,750 (9mos)
Credit @ 5%	938

EXAMPLE C: Taxpayer C has a similar fact pattern to Taxpayer A above except that the excess federal expenses were specifically identified as \$9,000 in August in Connecticut and \$16,000 in October in Rhode Island. Taxpayer C's calendar year 1995 RI R & D expense credit is calculated as:

Federal Excess Expenses	\$ 25,000
Amount of Federal Excess Expenses in RI	16,000
Amount of Expenses in RI after 7/1/94	16,000 specific
Credit @ 5%	800

EXAMPLE D: Taxpayer D has a similar fact pattern to Taxpayer B above except that the excess federal expenses were specifically identified as \$9,000 in August in Connecticut, \$7,000 in May 1994 and \$9,000 in October in Rhode Island. Taxpayer C's fye 3/31/95 RI R & D expense credit is calculated as:

Federal Excess Expenses	\$ 25,000
Amount of Federal Excess Expenses in RI	16,000
Amount of Expenses in RI after 7/1/94	9,000 specific
Credit @ 5%	450

IV. MINIMUM TAX AND CARRYOVER:

In the case of corporations, the credit allowed shall not reduce the tax due to less than the minimum fixed by section 44-11-2(e); however, if the amount of credit allowable reduces the tax to the minimum fixed by section 44-11-2(e), any amount of credit not used may be carried over to a maximum of seven (7) years. For purposes of chapter 44-30 (Personal Income Tax), if the credit allowed exceeds the taxpayer's tax, the amount of credit not used may be carried over to a maximum of seven (7) years.

V. ORDER OF CREDITS:

A. For purposes of determining the order in which carry-overs shall be taken into consideration, the credit allowed by section 44-32-2 (credit for research and development property) shall be used before the credit described in this regulation.

B. The investment tax credit allowed by section 44-31-1 shall be used before the credit described in this regulation.

VI. CONSOLIDATED RETURNS:

The credit allowed shall only be allowed against the tax of that corporation included in a consolidated return that qualifies for the credit and not against the tax of other corporations that may join in the filing of a consolidated return.

VII. DIVISION OF THE CREDIT:

In the event the taxpayer is a partnership, joint venture or small business corporation, the credit shall be divided in the same manner as income.

R. GARY CLARK
TAX ADMINISTRATOR

EFFECTIVE DATE: JANUARY 1, 1996

THIS REGULATION AMENDS AND SUPERCEDES REGULATION CR 95-07
PROMULGATED JANUARY 1, 1995.