

I.R.C. Sec. 41, Credit for Increasing Research Activities

Definition of Qualified Research:

1. The purpose is discovering information technological in nature; **AND**
2. The application of which is intended to be useful in the development of a new or improved component of the taxpayer; **AND**
3. Substantially all of the activities constitute a process of experimentation; **AND**
4. The experimentation is for a qualifying activity or purpose.

Activities that Qualify:

- Developing new or improved products, processes, or formulas
- Developing prototypes or models
- Developing or applying for patents
- Certification testing
- Developing new technology
- Environmental testing
- Developing or improving software technologies
- Building or improving manufacturing facilities
- Streamlining internal processes

Activities that Do NOT Qualify:

- Exploration activity to ascertain the existence, location, extent, or quality of any ore or mineral deposit
- Research AFTER commercial production
- Adapting an existing business component for a particular customer
- Duplicating an existing business component
- Surveys & studies such as market research, advertising, and routine data collection
- Computer software for internal use (unless its development supports an otherwise qualifying activity)
- Non-U.S. research
- Research intended to be transferred to another
- Research conducted for the benefit of and prior to commencing a new business
- Research in the social sciences, arts, or humanities
- Funded research
- Anything for style, taste, cosmetic, or seasonal reasons

Allowed Expenses for Qualified Research:

- Research expenses incurred in connection with carrying on a trade or business including:
 - o In-house wages and supplies
 - o Time-sharing costs for computer use
 - o 65% of amounts paid to contractors in the U.S. who work on the taxpayer's behalf
 - o Extraordinary utility charges
 - o Depreciation and depletion on property used in connection with qualified research activities

Dept. of Revenue, February 2, 2011