

**NORTH CAROLINA
CREDIT FOR RESEARCH AND DEVELOPMENT**

Under the William S. Lee Quality Jobs and Business Expansion Act

CALENDAR YEAR _____

OR FOR FISCAL YEAR BEGINNING _____ , ENDING _____

NAME:	EIN/SSN:
--------------	-----------------

This credit is effective for taxable years beginning on or after January 1, 1996 unless otherwise specified.

CERTIFICATION RECEIVED FROM THE SECRETARY OF COMMERCE MUST BE ATTACHED TO THIS FORM.

1. Did taxpayer meet the eligibility requirements of the North Carolina Department of Commerce? Yes No

2. Did the taxpayer claim a federal income tax credit under section 41 of the Internal Revenue Code for increasing research activities during the taxable year? Yes No

If the answer to question (1) and/or (2) above is "No", stop here. Taxpayer is not eligible for Credit for Research and Development.

3. Type of business in which taxpayer is engaged and in which the research and development credit is claimed:

- Manufacturing or Processing Effective for taxable years beginning on or after 1/1/96
- Warehousing or Distribution Effective for taxable years beginning on or after 1/1/96
- Data Processing Effective for taxable years beginning on or after 1/1/96
- Air Courier Services Effective for taxable years beginning on or after 1/1/98
- Central Administrative Office Effective for taxable years beginning on or after 1/1/97

General Credit

4. Total qualified research expenses for the taxable year as determined under section 41 of the Internal Revenue Code	4.	
5. Base amount of qualified research expenses as determined under section 41 of the Internal Revenue Code	5.	
6. Excess qualified research expenses (line 4 minus line 5)	6.	
7. Qualified research expenses in North Carolina for the taxable year	7.	
8. Research expenses apportionment percentage (line 7 divided by line 4)	8.	%
9. Increase in research activities apportioned to North Carolina (line 6 multiplied by line 8)	9.	
10. Credit Rate	10.	5%
11. Credit for Research and Development (line 9 multiplied by line 10)	11.	
12. Carryover of unused credit(s) from previous year(s)	12.	
13. Total Credit for Research and Development (Add lines 11 and 12) Enter the total on the Tax Credit Summary Sheet (Form CD-478), Line 7.	13.	

Substantiation. To claim a credit allowed by this Article [Article 3A], the taxpayer must provide any information required by the Secretary of Revenue. Every taxpayer claiming a credit under this Article shall maintain and make available for inspection by the Secretary of Revenue any records the Secretary considers necessary to determine and verify the amount of the credit to which the taxpayer is entitled. The burden of proving eligibility for the credit and the amount of the credit shall rest upon the taxpayer, and no credit shall be allowed to a taxpayer that fails to maintain adequate records or to make them available for inspection. (G.S. 105-129.7)

General Instructions

Credit for Research and Development

(Effective for taxable years beginning January 1, 1996 or later unless otherwise noted.)

(Notes: The credit is allowed for North Carolina purposes for that time period only in which the credit was allowed for federal purposes. For example, where a credit was not allowed for federal purposes for any amount paid or incurred after June 30, 1995, and before July 1, 1996, or after June 30, 1998 (Internal Revenue Code Section 41(f)(4)(h)(1)), a credit is not allowed for North Carolina purposes for that same time period. If a change is made by the federal government after the printing of this form, and such change allows for a research and development credit for federal purposes for any amount paid or incurred after June 30, 1998, then a credit will be allowed for North Carolina purposes for that same time period. If a taxpayer relocated an employee to North Carolina during 1996, any in-house research expenses the taxpayer incurred with respect to that employee during 1996, either before or after relocation, are considered in-house research expenses in North Carolina for purposes of the credit for research and development. (Session Laws 1996, Second Extra Session, c. 13, s.l. 3.11)

General Credit

A tax credit is allowable for 5 percent of the increase in research and development expenses that are apportioned to North Carolina. (G. S. 105-129.10(a))

Alternative Credit

Effective for taxable years beginning on or after January 1, 1999, a tax credit is allowable for 25 percent of the share of the alternative incremental federal credit apportioned to North Carolina. (G. S. 105.129.10(b)).

Eligibility

To be eligible for the credit, a taxpayer must:

- have claimed a federal income tax credit for increasing research activities under Section 41(a) (or effective for taxable years beginning on or after January 1, 1999 under Section 41(c)(4) of the Internal Revenue Code), (G.S. 105-129.10)
- meet the eligibility requirements as recognized by the Department of Commerce, which includes meeting the wage standard, at the location for which the credit is claimed, as determined by the Department of Commerce at the time the taxpayer applies for the credit (G.S. 105-129.4(b)),

Type of Businesses

A taxpayer must engage in one of the following types of businesses and the research and development for which a credit is claimed carried out as part of that business:

Effective taxable years beginning on or after Jan. 1, 1998

- central administrative office that creates at least 40 new jobs
- data processing
- manufacturing or processing
- warehousing or distribution
- air courier services

Effective taxable years beginning on or after Jan. 1, 1999

- central administrative office that creates at least 40 new jobs
- data processing
- manufacturing
- warehousing or wholesale trade
- air courier services

Change in Ownership of a Business

This does not create new eligibility, but a successor business may take any installment or carried-over portion of a credit which would have been allowed to the predecessor business. (G.S. 105-129.4(e))

Franchise or Income Election

A taxpayer must elect the tax against which a credit will be claimed when filing the return on which the first installment of the credit is claimed. The election is binding on the return on which the first installment is claimed as well as all carryforward years. Prior to the 1997 amendment to G.S. 105-129.5, the election had been required when the taxpayer *applied* for the credit. The amendment is **retroactive to taxable years beginning on or after January 1, 1996**. (G.S. 105-129.5)

Cap on Credit

Total of all credits under Article 3A may not exceed 50% of the tax against which they are claimed for the taxable year, reduced by the sum of all other credits allowed against that tax, except tax payments made by or on behalf of the taxpayer. Credits may be carried forward for five succeeding years. Effective for taxable years beginning on or after January 1, 1999, any unused portion of a credit with respect to a large investment (at least \$150,000,000) may be carried forward for twenty succeeding years. (G.S. 105-129.5)

Certification

To claim the credit, the taxpayer must provide with the tax return the certification of the Secretary of Commerce. (G.S. 105-129.6)