

## Form NC-478C- Research and Development

The credit for research and development in Article 3A provides a credit for qualified North Carolina research and development expenses and is available to less taxpayers than the research and development credit in Article 3F. The credit in Article 3A is limited to taxpayers that are in one of the eligible businesses, while the credit in Article 3F is available to all taxpayers regardless of business type.

**Important.** The credit for research and development in Article 3A and the credit for research and development in Article 3F are exclusive. Taxpayers may not claim the credit for research and development in Article 3A if you claim the credit for research and development in Article 3F with respect to the same qualified research and development expenses.

The following instructions for completing Part 1 through Part 4 of Form NC-478C apply to individuals, S corporations claiming the credit against franchise tax, and C corporations. Partnerships, S corporations claiming the credit against income tax, and other pass-through entities, see the specific instructions for pass-through entities located after the instructions for Part 4. The credit for research and development in Article 3A is not taken in installments, however, any unused portion of the credit may be carried forward for fifteen succeeding years.

**Part 1. Business Information.** *(The information requested in Part 1 is for a single establishment at which qualified research and development expenses occurred in North Carolina during tax year 2004. If you had qualified research expenses at more than one establishment in 2004, complete a separate Form NC-478C for each establishment.)*

To be eligible for the credit for research and development in Article 3A, a taxpayer must be one of the eligible business types. In addition, taxpayers must meet all of the following conditions:

1. Meet all the general eligibility requirements.
2. Claim in 2004 the federal income tax credit for research and development expenses under section 41(a) or section 41(c)(4) of the Internal Revenue Code.

**Name, Address, and County of Establishment.** Enter the name, address, county, and NAICS Code for each establishment at which qualified research and development expenses were incurred. If the establishment is located in a tier three, four, or five area and not in a development zone, a wage standard test must also be satisfied. The wage standard test for research and development requires the combined average weekly wage of all jobs at the location to meet the wage standard. For more information about the wage standard test, see the “**Guidelines for Article 3A Tax Credits**” available from the Department’s website.

Taxpayers must provide health insurance for all the jobs at the location with respect to which a research and development credit is claimed. The insurance must be provided to the employees at the time the research activities take place and must be maintained to claim a carryforward of the credit. Taxpayers must provide a certification with the tax return showing that health insurance is provided to all full-time positions at the location.

**Part 2. Computation of General Credit for R & D Expenses Incurred in 2004.** *(The information requested on Part 2, Lines 1 through 6, is the cumulative total of all qualified research and development expenses during tax year 2004 and will be the same on all NC-478Cs filed. The information requested in Part 2, Lines 7 and 8, is for a single establishment at which qualified research and development expenses were incurred in North Carolina during tax year 2004. If you had qualified research*

*expenses attributed to more than one establishment in 2004, complete a separate Form NC-478C for each establishment. (Note. If you complete Part 2 for expenses attributed to a single establishment in 2004, do not complete Part 3 of Form NC-478C for that same establishment.)*

**Line 1.** Enter the total amount of qualified research and development expenses incurred in tax year 2004. **(Note.** For a definition of “qualified research and development expenses”, see Section 41 of the Internal Revenue Code as enacted as of January 1, 1999.)

**Line 2.** Enter the base amount of qualified research and development expenses. **(Note.** For a definition of “base amount”, see Section 41 of the Internal Revenue Code as enacted as of January 1, 1999.)

**Line 3.** Subtract Line 2 from Line 1. This is the total excess qualified research and development expenses incurred in tax year 2004.

**Line 4.** Enter the amount of Line 3 incurred in North Carolina.

**Line 5.** Divide Line 4 by Line 1. This is the percentage of excess qualified research and development expenses apportioned to North Carolina.

**Line 6.** Multiply Line 3 by Line 5. This is the amount of excess qualified research and development expenses apportioned to North Carolina.

**Line 7.** Enter the amount of Line 6 attributed to this establishment. **(Note.** If in 2004 a federal research and development credit is claimed for expenses incurred with respect to more than one establishment in North Carolina, allocate Line 6 to each establishment by entering the appropriate amount on Line 7; otherwise, Line 7 must equal Line 6.)

**Line 8.** Multiply Line 7 by 5%. **This is the amount of eligible general credit for research and development expenses attributed to a single establishment in 2004.**

**Part 3. Computation of Alternative Credit.** *The information requested on Part 3, Lines 9 through 13, is the cumulative total of all qualified research and development expenses during 2004 and will be the same on all NC-478Cs filed. The information requested in Part 3, Lines 14 and 15, is for a single establishment at which qualified research and development expenses were incurred in North Carolina during tax year 2004. If you had qualified research expenses attributed to more than one establishment in 2004, complete a separate Form NC-478C for each establishment. (Note. If you complete Part 3 for expenses attributed to a single establishment in 2004, do not complete Part 2 of Form NC-478C for that same establishment.)*

**Line 9.** Enter the total amount of qualified research and development expenses incurred during tax year 2004.

**Line 10.** Enter the amount of Line 9 incurred in North Carolina.

**Line 11.** Divide Line 10 by Line 9. This is the percentage of excess qualified research and development expenses apportioned to North Carolina.

**Line 12.** Enter the amount of federal alternative incremental credit as defined under section 41(c) of the Internal Revenue Code.

**Line 13.** Multiply Line 11 by Line 12. This is the amount of federal alternative incremental credit apportioned to North Carolina.

**Line 14.** Enter the amount of Line 13 attributed to this establishment. (**Note.** *If in 2004 the federal alternative incremental credit for increasing research activities is claimed with respect to more than one establishment in North Carolina, allocate Line 13 to each establishment by entering the appropriate amount on Line 14; otherwise, Line 14 must equal Line 13.*)

**Line 15.** Multiply Line 14 by 25%. **This is the amount of eligible alternative credit for research and development expenses attributed to a single establishment in 2004.**

**Part 4. Computation of Amount Eligible To Be Taken in 2004.**

*(The information requested for Part 4 is a cumulative total for all establishments and should be entered only once on the last Form NC-478C filed.)*

**Line 16.** Enter the total 2004 general credit for research and development expenses. *(From Part 2, Line 8.)*

**Line 17.** Enter the total 2004 alternative credit for research and development expenses. *(From Part 3, Line 15.)*

**Line 18.** Enter the portion of general or alternative credit not taken for tax years 1999 through 2003.

**Line 19.** Add Lines 16 and 18 **OR** 17 and 18. **This is the amount of eligible credit available to take for research and development expenses in 2004.** *(Carry amount to Form NC-478, Line 3a.)*

**Pass-through Entities. S corporations claiming the credit against income tax** complete Parts 1 through 3 as one taxpayer, then allocate the amount from Part 2, Line 8 or Part 3, Line 15 among the shareholders. Complete Part 4 by including the amounts allocated to those nonresident shareholders on whose behalf a composite return is being filed. On Part 4, Line 18, include only the carryforwards for those nonresident shareholders on whose behalf a composite return is filed in both the prior year and the current year. **Partnerships** complete Parts 1 through 3 as one taxpayer, then allocate the amount from Part 2, Line 8 or Part 3, Line 15 among the partners. Complete Part 4 by including the amounts allocated to those nonresident partners on whose behalf the managing partner pays the tax. On Part 4, Line 18, include only the carryforwards for those nonresident partners on whose behalf the partnership pays tax in both the prior year and the current year. **Trusts and estates** complete Parts 1 through 3 as one taxpayer, then allocate the amount from Part 2, Line 8 or Part 3, Line 15 among the fiduciary and the beneficiaries. Complete Part 4 by including only the amount allocated to the fiduciary.