

## Form NC-478I- Research and Development

The credit for research and development in Article 3F provides a credit for qualified North Carolina research and development expenses and is available to more taxpayers than the research and development credit in Article 3A. 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. However, taxpayers claiming the research and development credit in Article 3F must meet the remaining general eligibility requirements found in Article 3A. These requirements are as follows:

- Meet the wage standard
- Provide health insurance for employees
- Have a good environmental record
- Have a good Occupational Safety and Health Act (OSHA) record

The credit for research and development in Article 3F consist of two parts: (1) a credit for North Carolina university research expenses and (2) a credit for qualified North Carolina research expenses other than university research expenses. The credit for qualified North Carolina research expenses is further divided into three categories: (1) small business, (2) low-tier research, and (3) other research expenses. **Important. The credit in Article 3F is effective for business activities occurring on or after May 1, 2005. Therefore the credit in Article 3F may only be taken on the 2004 tax return by taxpayers with a fiscal year ending on or after May 1, 2005.**

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 3F if you claim the credit for research and development in Article 3A with respect to the same qualified R & D expenses. *(For more information on the credit for research and development in Article 3F, including the definition of specific terms used in the calculation of the credit, see the "2004 Tax Law Changes" available from the Department's website.)*

The following instructions for completing Part 1 through Part 5 of Form NC-478I 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 5.

The credit in Article 3F is not taken in installments; however, any unused portion of the credit may be carried forward for fifteen succeeding years.

**Part 1. Type of Research Expenses.** Fill in all applicable circles related to the type of research and development expenses incurred for research performed in North Carolina on or after May 1, 2005.

**Part 2. Computation of Credit for North Carolina University R & D Expenses.** *(If you complete Part 2, do not complete Parts 3 or 4 of Form NC-478I for the same qualified expenses.)*

**Line 1.** Enter the total amount of North Carolina university research and development expenses incurred on or after May 1, 2005.

**Line 2.** Multiply Line 1 by 15.0%. **This is the amount of eligible credit for North Carolina university R & D expenses.**

**Part 3. Computation of Credit for Qualified North Carolina Small Business R & D Expenses Incurred.** *(If you complete Part 3, do not complete Parts 2 or 4 of Form NC-478I for the same qualified expenses.)*

**Line 3.** Enter the total amount of North Carolina small business research and development expenses incurred on or after May 1, 2005.

**Line 4.** Multiply Line 3 by 3.0%. **This is the amount of eligible credit for North Carolina small business R & D expenses.**

**Part 4. Computation of Credit for Qualified North Carolina Low-Tier and Other R & D Expenses.** *(If you complete Part 4, do not complete Parts 2 or 3 of Form NC-478I for the same qualified expenses.)*

**Line 5.** Enter the total amount of North Carolina research and development expenses incurred on or after May 1, 2005 that are not university or small business research expenses.

**Line 6.** Enter the portion of Line 5 incurred in Tiers 1, 2, or 3. *(The Department of Commerce publishes a list of the counties and their respective tier designations. For more information about enterprise tiers, go to the Department of Commerce's website, [www.nccommerce.com](http://www.nccommerce.com), and click on "Financial Incentives/North Carolina county tier designations.")*

**Line 7.** Multiply Line 6 by 3.0%. **This is the amount of eligible credit for qualified North Carolina low-tier R & D expenses.**

**Line 8.** Subtract Line 6 from Line 5. This is the total amount of qualified North Carolina other research and development expenses.

**Line 9.** Multiply Line 8 by the following percentages and add the amounts:

- Multiply the first \$50 million by 1.0%
- Multiply the amount over \$50 million but less than \$200 million by 2.0%
- Multiply the amount over \$200 million by 3.0%

**This is the amount of eligible credit for qualified North Carolina other R & D expenses in 2004.**

**Part 5. Computation of Eligible Credit To Be Taken in 2004.**

**Line 10.** Enter the credit for North Carolina university R & D expenses. *(From Part 2, Line 2.)*

**Line 11.** Enter the credit for qualified North Carolina R & D expenses. *(Enter the amount from Part 3, Line 4 OR the sum of Part 4, Lines 7 and 9.)*

**Line 12.** *(Carryforwards not applicable for tax year 2004.)*

**Line 13.** Add Lines 10 through 12. **This is the amount of eligible credit available to take for research and development expenses in 2004.** *(Carry amount to Form NC-478, Line 3b.)*

**Pass-through Entities. S corporations claiming the credit against income tax** complete Parts 1 through 4 as one taxpayer, then allocate the amount from Part 2, Line 2, Part 3, Line 4, and the sum of Part 4, Lines 7 and 9 among the shareholders. Complete Part 5 by including the amounts allocated to those nonresident shareholders on whose behalf a composite return is being filed. **Partnerships** complete Parts 1 through 4 as one taxpayer, then allocate the amount from Part 2, Line 2, Part 3, Line 4, and the sum of Part 4, Lines 7 and 9 among the partners. Complete Part 5 by including the amounts allocated to those nonresident partners on whose behalf the managing partner pays the tax. **Trusts and estates** complete Parts 1 through 4 as one taxpayer, then allocate the amount from Part 2, Line 2, Part 3, Line 4, and the sum of Part 4, Lines 7 and 9 among the fiduciary and the beneficiaries. Complete Part 5 by including only the amount allocated to the fiduciary.