

NC-478I - Research and Development

The credit for research and development under Article 3F provides a credit for qualified North Carolina research and development expenses and is available to all taxpayers regardless of business type. Taxpayers claiming the research and development credit in Article 3F must meet the following general eligibility requirements found in Article 3A:

- 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.

The following instructions for completing Part 1 through Part 5 of 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 R & D credit is not taken in installments; however, any unused portion of the credit may be carried forward for fifteen succeeding years.

Part 1. Qualifying 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 2009. If you had qualified research expenses at more than one establishment in 2009, complete a separate NC-478I for each establishment.)*

Type of Research Expenses. Fill in all applicable circles related to the type of R & D expenses incurred in North Carolina.

Name, Address and County at which Credit is Generated. Enter the name, address, and county of each location where R & D expenses were incurred in North Carolina.

Other Business Information. Taxpayers must provide health insurance for all full-time positions at each location where R & D expenses were incurred in North Carolina. The insurance must be provided to the employees at the time the research and development expenses were incurred and must be maintained every year the credit or a carryforward of the credit is claimed. Taxpayers must provide with the tax return certification that health insurance is provided to all full-time positions at the location where the research and development occurred.

Part 2. Computation of Credit for North Carolina University R & D Expenses. *(The information requested on Part 2, Lines 1 and 2, is the cumulative total of all qualified research and development expenses during tax year 2009 and will be the same on all NC-478Is filed. Note. If you complete Part 2, do not complete Parts 3 or 4 of NC-478I for the same qualified expenses.)*

Line 1. Enter the total amount of North Carolina university R & D expenses.

Line 2. Multiply Line 1 by 20.0%. **This is the amount of credit for North Carolina university R & D expenses.**

Part 3. Computation of Credit for Qualified North Carolina Small Business R & D Expenses Incurred. *(The information requested on Part 3, Lines 3 and 4, is the cumulative total of all qualified research and development expenses during tax year 2009 and will be the same on all NC-478Is filed. Note. If you complete Part 3, do not complete Parts 2 or 4 of NC-478I for the same qualified expenses.)*

Line 3. Enter the total amount of North Carolina small business R & D expenses.

Line 4. Multiply Line 3 by 3.25%. **This is the amount of 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. *(The information requested on Part 4, Lines 5 through 9, is the cumulative total of all qualified research and development expenses during tax year 2009 and will be the same on all NC-478Is filed. Note. If you complete Part 4, do not complete Parts 2 or 3 of NC-478I for the same qualified expenses.)*

Line 5. Enter the total amount of North Carolina low-tier and other R & D expenses that are not university or small business research expenses.

Line 6. Enter the total amount of North Carolina low-tier R & D expenses.

Line 7. Multiply Line 6 by 3.25%. **This is the amount of 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 R & D expenses.

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

- Multiply the first \$50 million by 1.25%
- Multiply the amount over \$50 million but no more than \$200 million by 2.25%
- Multiply the amount over \$200 million by 3.25%

This is the amount of credit for qualified North Carolina other R & D expenses in 2009.

Part 5. Computation of Credit To Be Taken in 2009. *(The information requested on Part 5, Lines 10 through 13, is the cumulative total of all qualified research and development expenses during tax year 2009 and will be the same on all NC-478Is filed.)*

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. Enter the amount of carryforward for portion of credit not taken for tax years 2005 through 2008.

Line 13. Add Lines 10 through 12. **This is the amount of credit to take in 2009 for Research & Development.** *(Carry amount to Line 3b of NC-478.)*

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.