YEAR | CALIFORNIA FORM

# 1995 Research Credit 3523

Attach to your California tax return.

Name(s) as shown on return

Social security or California corporation number

Federal employer identification number (FEIN)

**Part I** **Computation of the Credit.** Read the instructions before completing this form.

**Line 1 through line 4 are to be completed only by corporations. Individuals, partnerships, estates and trusts, begin on line 5.**

| | | | |
|---|---|---|---|
| **1** | Basic research payments paid or incurred during the income year. See instructions | **1** | |
| **2** | Base period amount. See instructions | **2** | |
| **3** | Subtract line 2 from line 1. If less than zero, enter -0- | **3** | |
| **4** | Multiply line 3 by 12% (.12) | **4** | |
| | **Qualified research expenses paid or incurred** | | |
| **5** | Wages for qualified services (do not include wages used in figuring the jobs credit) | **5** | |
| **6** | Cost of supplies | **6** | |
| **7** | Rental or lease costs of computers. See instructions | **7** | |
| **8** | Enter 65% (.65) of contract expenses | **8** | |
| **9** | Total qualified research expenses. Add line 5 through line 8 | **9** | |
| **10** | Enter fixed-base percentage, but not more than 16%. See instructions | **10** | % |
| **11** | Enter average annual gross receipts. See instructions | **11** | |
| **12** | Base amount. Multiply line 11 by the percentage on line 10 | **12** | |
| **13** | Subtract line 12 from line 9. | **13** | |
| **14** | Multiply line 9 by 50% (.50). See instructions | **14** | |
| **15** | Enter the smaller of line 13 or line 14 | **15** | |
| **16** | Multiply line 15 by 8% (.08) | **16** | |
| **17** | Tentative credit. Add line 4 and line 16. If you do not elect the reduced credit under IRC Section 280C(c), enter the result and see the instructions. If you do elect the reduced credit, multiply the result by 89% (.89) for individuals, partnerships, estates and trusts, by 90.7% (.907) for corporations, and by 98.5% (.985) for S corporations and enter the reduced amount | **17** | |
| **18** | Flow-through research credit(s) from passthrough entities. The credit may be limited. See instructions | **18** | |
| **19** | Current year research credit. Add line 17 and line 18 | **19** | |
| **20** | Enter the amount of credit on line 19 that is from passive activities. If none of the amount on line 19 is from passive activities, enter -0-. | **20** | |
| **21** | Subtract line 20 from line 19 | **21** | |
| **22** | Enter the allowable credit from passive activities. See instructions | **22** | |
| **23** | Credit carryover from prior years | **23** | |
| **24** | Total available research credit. Add line 21 through line 23 | **24** | |

**Caution:** Your credit may be limited. See instructions for line 24.

**Part II** **Computation of the Carryover.** Do not complete this part if you must file Schedule P (100, 540, 540NR or 541).

| | | | |
|---|---|---|---|
| **25** | Amount of research credit claimed on current year tax return. See line 24 instructions | ▮ **25** | |
| **26** | Credit carryover to future years. Subtract line 25 from line 24. | **26** | |

## General Information

The amendments made by the Revenue Reconciliation Act of 1993 to Section 41 of the Internal Revenue Code relating to the credit for increased research activities apply to taxable or income years beginning on or after January 1, 1994, for purposes of the research credit.

## A Purpose of Form

Existing companies and ''Start-Up'' companies use form FTB 3523 to figure and claim a credit for increasing the research activities of a trade or business.

## B Who Must File

An individual, estate, trust, organization or corporation claiming a credit for increasing research activities must attach this form to its California tax return. In addition, an S corporation, partnership, limited liability company, estate or trust that shares the credit among its shareholders, partners, members or beneficiaries must attach this form to its California tax return.

## C California and Federal Differences

Federal and California law are generally the same, except that:

- the basic and qualified research must have been conducted within California;
- 8 percent of the excess of qualified research expenses over base period research expenses and, for corporations only, 12 percent of the basic research payments will be allowed as a credit;
- if your business is both within and outside of California, gross receipts are the receipts from the sale of property held primarily for sale to customers (in the ordinary course of

your trade or business) that is delivered or shipped to California.

## D Miscellaneous

A husband and wife may claim only one credit. If separate returns are filed, the credit may be taken by either or divided equally between them.

The credit can not reduce the minimum franchise tax (corporations, limited partnerships and S corporations), the alternative minimum tax (corporations, fiduciaries and individuals), the built-in gains tax (S corporations) or the excess net passive income tax (S corporations).

For S corporations, only one-third of the allowable credit may be claimed against the 1.5 percent tax, after applying the limitations relating to passive activity losses and credits. An S corporation is not allowed to carry over any portion of the two-thirds credit denied under the ''one-third rule.'' In addition, 100 percent of the allowable credit, as determined under the Personal Income Tax Law, may be passed through to the shareholders on a pro-rata basis.

## Specific Line Instructions

See the instructions for federal Form 6765, Credit for Increasing Research Activities, for more information.

**Line 1 –** Corporations (other than S corporations, personal holding companies, and service organizations) may be eligible for a ''basic research'' credit if the 1995 payments in cash to a qualified university or scientific research organization (under a written contract) exceed a base period amount (based on your general university giving and certain other maintenance-or-effort levels for the 3 preceding years). To be eligible, the basic research must have been carried out within California. Enter your 1995 payments on line 1. See IRC Section 41(e) for details.

**Line 2 –** Enter the base amount. Generally, this amount will be the same as the federal amount if your business is located solely in California. If you do business both within and outside of California, see General Information C. The amount on line 2 may not be more than the amount on line 1. This amount may be treated as 1995 contract research expenses on line 8 (subject to the 65 percent limitation).

**Line 7 –** See IRC Section 41(b)(2)(A) for rules on leased property if you receive payments from anyone for the rental or lease of substantially identical property.

**Line 8 –** Include 65% of any amount paid or incurred for qualified research performed on your behalf. For corporations only, include 65% of the portion of line 1 basic research payments that does not exceed the line 2 base period amount.

**Line 10 –** Compute the fixed-based percentage as follows:

**Existing companies –** The fixed-base percentage is the ratio that the aggregate qualified research expenses for at least 3 tax years from 1984 to 1988 bears to the aggregate gross receipts for such tax years. Round off the percentage to the nearest 1/100th of 1%.

**Start-up companies –** If a company has fewer than three tax years beginning after 1983 and before 1989 during which it had both gross receipts and qualified research expenses, its fixed-base is 3%, until taxable or income years beginning in 1994. Then there is a ten year phase-in period leading up to a credit based on five years of experience.

During the phase-in period, 3% continues to be used as the fixed-base percentage for a start-up company, but only during each of the company's first five taxable or income years beginning after 1993 for which it has a qualified research expense. For a start-up company's fixed-base percentage for its sixth through tenth year beginning after 1993 see IRC Section 41 (c)(3)(A)(ii).

**Note:** The maximum percentage that can be entered on line 10 is 16%.

**Line 11 –** Enter the average annual gross receipts for the 4 tax years preceding the tax year for which the credit is being determined (called the credit year). You may be required to annualize gross receipts for any short tax year. See IRC Section 41(c)(1)(B) and Section 41(f)(4) for details.

For purposes of line 10 and line 11, reduce gross receipts for any tax year by returns and allowances made during the tax year. In the case of a business that is within and outside of California, include only the gross receipts from the sale of property held primarily for sale to customers in the ordinary course of your trade or business that is delivered or shipped to California, regardless of F.O.B. point or other conditions of sale.

**Line 14 –** The base amount cannot be less than 50% of the current year qualified research expenses. This rule applies both to existing and newly-organized businesses.

**Line 17 –** Unless you made an election to reduce the research credit, deductions under IRC Section 174 or any other provision for research expenses or basic research payments must be reduced by the amount of your current year's research credit. See the instructions for federal Form 6765, Credit For Increasing Research Activities, for more information.

**Line 18 –** Include on this line your share of credit passing through from S corporations, partnerships, limited liability companies and fiduciaries.

The credit is limited to the amount attributable to your interest in the proprietorship, partnership, S corporation, limited liability company, estate or trust generating the credit. Figure the credit separately for each business interest by dividing the taxable income attributable to your interest in the business by your total taxable income for the year. This percentage cannot exceed 100%. If, in the current taxable or income year you had no income attributable to a particular business interest, you cannot claim any research credit this year for that business. The credit can be carried over to subsequent taxable or income years, but the limitation must be calculated for each year.

**Limited liability companies that are corporations** must figure the amount of credit to flow through to their shareholders or members on line 1 through line 24. Partnerships, S corporations, limited liability companies that are partnerships and fiduciaries must figure the amount of credit to flow through to their partners, members or beneficiaries on line 5 through line 24. The credit for each shareholder, partner, member or beneficiary must be shown on Schedule K-1 or on an attachment to Schedule K-1.

**Line 22 –** If any part of the amount on line 19 is from a passive activity, you must complete form FTB 3801-CR, Passive Activity Credit Limitations, or form FTB 3802, Corporate Passive Activity Loss and Credit Limitations, to determine your allowable credit. Complete form FTB 3801-CR or form FTB 3802 before completing the rest of this form.

**Line 24 –** The amount of this credit you may claim on your tax return may be limited. Refer to the credit instructions in your tax booklet to see if there are any limitations on the amount of credit you may claim. These instructions also explain how to claim this credit on your tax return. You must use credit code number **183** to claim this credit.

If available credit for the current year exceeds the tax, you may carry over any unused credit to succeeding years.