



Instructions for Form 6765

Credit for Increasing Research Activities

Section references are to the Internal Revenue Code unless otherwise noted.

General Instructions

Purpose of Form

Use Form 6765 to figure and claim the credit for increasing research activities (research credit).

Who Must File

An individual, estate, trust, organization, or corporation claiming a credit for increasing research activities; or any S corporation, partnership, estate, or trust that allocates the credit to its shareholders, partners, or beneficiaries must complete this form and attach it to its income tax return. See the instructions for line 41 if allocating the credit.

Qualified Research

The research credit is generally allowed for qualified research. **Qualified research** means research for which expenditures may be treated as section 174 expenses. This research must be undertaken for discovering information that is technological in nature, and its application must be intended for use in developing a new or improved business component of the taxpayer. In addition, substantially all of the activities of the research must be elements of a process of experimentation relating to a new or improved function, performance, reliability, or quality.

The research credit generally is **not** allowed for the following types of activities.

- Research conducted after the beginning of commercial production.
- Research adapting an existing product or process to a particular customer's need.
- Duplication of an existing product or process.
- Surveys or studies.
- Research relating to certain internal-use computer software.
- Research conducted outside the United States, Puerto Rico, or a U.S. possession.
- Research in the social sciences, arts, or humanities.
- Research funded by another person (or governmental entity).

If you incur qualified clinical testing expenses relating to drugs for certain rare diseases, you may elect to claim the orphan drug credit for these expenses instead of taking the research credit. See **Form 8820**, Orphan Drug Credit.

See section 41 and Regulations sections 1.41–2 and 1.41–4 for other definitions and special rules.

Special Rules

See section 41(f) and Regulations section 1.41 for special rules related to:

- Aggregation of expenditures for members of controlled groups and businesses under common control;
- Allocation of the credit by partnerships, estates, and trusts;
- Adjustments, if a major portion of a business is acquired or disposed of; and
- Short tax years.

For special rules concerning the allocation and apportionment of research and experimental expenditures between U.S. and foreign source income, see sections 861 through 864.

Additional Information

See section 41 and Regulations section 1.41 for more details.

Specific Instructions

Part I—Current Year Credit

You may claim the regular credit (Section A) or elect the alternative incremental credit (Section B). Under the alternative incremental credit, a smaller three-tiered fixed-base percentage and reduced three-tiered credit rate apply. You may want to figure your credit both ways to see which gives you the larger credit. However, once elected, the alternative incremental credit applies to the current tax year and all later tax years, unless you receive IRS consent to revoke the election.

Members of Controlled Groups or Businesses Under Common Control

For purposes of figuring the credit, all members of a controlled group of corporations (as defined in section 41(f)(5) and Regulations section 1.41–6), and all members of a group of businesses under common control, are treated as a single taxpayer. The credit allowed each member is based on its proportionate share of qualified research expenses and basic research payments giving rise to the group's research credit. Use Section A or B of Part I to figure the credit for the entire group, but enter only this member's share of the credit on line 16 or line 39, whichever applies. Attach a statement showing how this member's share of the credit was figured, and write "See attached" next to the entry space for line 16 or line 39.

Section A—Regular Credit

Skip this section and go to Section B if you are electing or previously elected the alternative incremental credit (and have not received permission to revoke the election).

Line 1

Corporations (other than S corporations, personal holding companies, and service organizations) may be eligible for a “basic research” credit if payments in cash to a qualified university or scientific research organization (under a written contract) exceed a base period amount (based on their general university giving and certain other maintenance-of-effort levels for the 3 preceding years). Enter your payments on this line. See section 41(e) for details.

Line 2

Enter the qualified organization base period amount as defined in section 41(e). The amount on line 2 (not to exceed the amount on line 1), although not eligible for the basic research credit, can be treated as contract research expenses on line 7 subject to the 65% (or 75%) limitation.

Line 6

Enter the amount you paid or incurred for the rental or lease of computers used in qualified research. The computer must be located off your premises and you must not be the operator or primary user of the computer. Reduce this amount by the amount that you (or any member of a controlled group of corporations or businesses under common control) received or accrued for the right to use substantially identical property.

Line 7

Include 65% of any amount you paid or incurred for qualified research performed on your behalf. Prepaid contract research expenses are considered paid in the year the research is actually done. Also include 65% of that portion of the line 1 basic research payments that does not exceed the line 2 base amount.

However, use 75% in place of 65% for payments made to a qualified research consortium. A qualified research consortium is a tax-exempt organization described in section 501(c)(3) or 501(c)(6) that is organized and operated primarily to conduct scientific research and is not a private foundation.

Line 9

The fixed-base percentage depends on whether you are an existing company or a start-up company.

A start-up company is a taxpayer that had **both** gross receipts and qualified research expenses either:

- For the first time in a tax year beginning after 1983 or
- For fewer than 3 tax years beginning after 1983 and before 1989.

The fixed-base percentage for a start-up company is figured as follows.

- For the first 5 tax years beginning after 1993 for which you have qualified research expenses, the percentage is 3%.

- For the 6th tax year beginning after 1993 for which you have qualified research expenses, divide the aggregate qualified research expenses for the 4th and 5th such tax years by the aggregate gross receipts for those tax years, then divide the result by 6.
- For the 7th tax year beginning after 1993 for which you have qualified research expenses, divide the aggregate qualified research expenses for the 5th and 6th such tax years by the aggregate gross receipts for those tax years, then divide the result by 3.
- For the 8th tax year beginning after 1993 for which you have qualified research expenses, divide the aggregate qualified research expenses for the 5th, 6th, and 7th such tax years by the aggregate gross receipts for those tax years, then divide the result by 2.
- For the 9th tax year beginning after 1993 for which you have qualified research expenses, divide the aggregate qualified research expenses for the 5th, 6th, 7th, and 8th such tax years by the aggregate gross receipts for those tax years, then divide the result by 1.5.
- For the 10th tax year beginning after 1993 for which you have qualified research expenses, divide the aggregate qualified research expenses for the 5th through 9th such tax years by the aggregate gross receipts for those tax years, then divide the result by 1.2.
- For the 11th and later tax years beginning after 1993 for which you have qualified research expenses, divide the aggregate qualified research expenses for any 5 of the 5th through 10th such tax years by the aggregate gross receipts for those tax years.

The fixed-base percentage for an existing company (any company that is not a start-up company) is figured by dividing the aggregate qualified research expenses for the tax years beginning after 1983 and before 1989 by the aggregate gross receipts for those tax years.

The fixed-base percentage for all companies (existing and start-up) must be rounded to the nearest 1/100th of 1% (i.e., four decimal places) and cannot exceed 16%. In addition, when figuring your fixed-base percentage, you must reflect expenses for qualified research conducted in Puerto Rico or a U.S. possession for all prior tax years included in the computation.

If short tax years are involved, see Regulations section 1.41–3(b).

Note: *Reduce gross receipts by returns and allowances. For a foreign corporation, include only gross receipts that are effectively connected with a trade or business in the United States (or in Puerto Rico or a U.S. possession, if applicable).*

Line 10

Enter the average annual gross receipts (reduced by returns and allowances) for the 4 tax years preceding the tax year for which the credit is being determined. You may be required to annualize gross receipts for any short tax year. For a foreign corporation, include only gross receipts that are effectively connected with a trade or business in the United States (or in Puerto Rico or a U.S. possession, if applicable).

Line 16

If you do not elect the reduced credit, you must reduce your otherwise allowable deduction for qualified research expenses or basic research expenses by the amount of the credit on this line. If the credit exceeds the amount allowed as a deduction for the tax year, reduce the amount chargeable to the capital account for the year for such expenses by the amount of the excess.

Attach a schedule to your tax return that lists the deduction amounts (or capitalized expenses) that were reduced. Identify the lines of your return (schedule or forms for capitalized items) on which the reductions were made.

Section B—Alternative Incremental Credit

Complete this section **only** if you are electing or previously elected the alternative incremental credit instead of the regular credit (and have not received permission to revoke the election).

Line 18

Enter the qualified organization base period amount as defined in section 41(e). The amount on line 18 (not to exceed the amount on line 17), although not eligible for the basic research credit, can be treated as contract research expenses on line 24 subject to the 65% (or 75%) limitation.

Section C—Current Year Credit

Line 41

Pass-through entities should report the amount on line 41 as follows.

Estates and trusts. Allocate the credit on line 41 between the estate or trust and the beneficiaries in the same proportion as income was allocated. In the margin for line 41, the estate or trust should enter its share of the credit. Label it "1041 Portion" and use this amount in Part II (or on Form 3800, if required) to figure the credit to take on Form 1041. On Schedule K-1, show the credit allocated to each beneficiary.

S corporations and partnerships. Attach Form 6765 to your tax return, and on Schedule K-1 show the credit allocated to each shareholder or partner. Electing large partnerships include this credit in "general credits."

Part II—Allowable Credit

The credit allowed for the current year may be limited based on your tax liability. Use Part II to figure the allowable credit unless you must file **Form 3800**, General Business Credit.

Who must file Form 3800. You must file Form 3800 if you have:

- A research credit from a passive activity,
- More than one credit included in the general business credit (other than a credit from Form 8844 or 8884), or
- A carryback or carryforward of any of those credits.

See the instructions for Form 3800 for a list of credits included in the general business credit.

Line 48

See section 38(c)(4) for special rules that apply to married couples filing separate returns, controlled corporate groups, regulated investment companies, real estate investment trusts, and estates and trusts.

Line 49

Although you may not owe alternative minimum tax (AMT), you generally must still compute the tentative minimum tax (TMT) to figure your credit. For a small corporation exempt from the AMT under section 55(e), enter zero. Otherwise, complete and attach the appropriate AMT form or schedule.

Line 52

For an individual, estate, or trust, the credits on line 16 or 39 and line 40 are limited to the amount of tax attributable to your taxable income from the sole proprietorship or your interest in the partnership, S corporation, estate, or trust (pass-through entity) generating the credit. Figure the research credit limitation separately for each business enterprise by using the following formula:

$$\text{(Line 46 - Line 48) x } \frac{\text{Taxable income attributable to the sole proprietorship or your interest in the pass-through entity}}{\text{Taxable income for the year (Form 1040, line 41, or Form 1041, line 22)}}$$

The result figured above is limited to the excess of line 46 over line 48. If in the current tax year you had no taxable income attributable to a particular business interest, you cannot claim any research credit this year for that business.

If you cannot use part or all of the research credit because of the tax liability limit or the taxable income limit above (line 52 is less than line 41), carry the unused credit back 1 year then forward up to 20 years. See the instructions for Form 3800.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	16 hr., 58 min.
Learning about the law or the form	1 hr., 40 min.
Preparing and sending the form to the IRS	2 hr., 2 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.
