



# Instructions for Form 6765

## Credit for Increasing Research Activities

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

### Future Developments

For the latest information about developments related to Form 6765 and its instructions, such as legislation enacted after they were published, go to [www.irs.gov/form6765](http://www.irs.gov/form6765).

### What's New

The credit for increasing research activities has been extended for amounts paid or incurred through December 31, 2014.

## General Instructions

### Purpose of Form

Use Form 6765 to figure and claim the credit for increasing research activities or to elect the reduced credit under section 280C.

### 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.

Partnerships and S corporations must file this form to claim the credit. All others are generally not required to complete or file this form if their only source for this credit is a partnership, S corporation, estate, or trust. Instead, they can report this credit directly on Form 3800, General Business Credit. The following exception applies: you are a taxpayer that is an estate or trust and the credit can be allocated to beneficiaries. For more details, see the Instructions for Form 1041, Schedule K-1, box 13.

**Note.** Corporations filing an amended return to claim a credit or refund of the research credit, see Notice 2008-39, I.R.B. 2008-13 684, available at [http://www.irs.gov/irb/2008-13\\_IRB/ar12.html](http://www.irs.gov/irb/2008-13_IRB/ar12.html) for information on where to file.

### Qualified Research

The research credit is generally allowed for expenses paid or incurred for qualified research. *Qualified research* means research for which expenses 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. All of the research activities must be applied separately with respect to each business component of the taxpayer. 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 can elect to claim the orphan drug credit for these expenses instead of 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 sections 1.41-6 (except section 1.41-6(c) and parts of section 1.41-6(e) do not apply; see Notice 2013-20, I.R.B. 2013-15, available at [http://www.irs.gov/irb/2013-15\\_IRB/ar18.html](http://www.irs.gov/irb/2013-15_IRB/ar18.html), for details) and 1.41-7 for special rules related to:

- Aggregation of expenses 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 expenses between U.S. and foreign source income, see sections 861 through 864.

### Member of Controlled Group or Business Under Common Control

For purposes of figuring the credit, all members of a controlled group of corporations (as defined in section 41(f)(1)(A) and (f)(5)) and all members of a group of businesses under common control (as defined in section 41(f)(1)(B)), are treated as a single taxpayer. Use Section A or B to figure the credit for the entire group. As a member, your credit is determined on a proportionate basis to your share of the aggregate qualified research expenses for increasing research activities taken into account by the group for the research credit. Enter your

share of the credit on line 17 or line 34, whichever applies. Attach a statement showing how your share of the credit was figured, the name and employer identification number or taxpayer identification number of the other members of the group, and the designated member. Write "See Attached" next to the entry space for line 17 or line 34.

If a member of a controlled group of corporations or businesses under common control has filed its return using a method different from that of the designated member, then that member should file an amended return to conform to the designated member's method.

A member of a controlled group cannot make an ASC election in a tax year on an amended return if any member of the controlled group for that tax year previously claimed the research credit using a method other than the ASC on an original or amended return for that year. For additional rules regarding the election (or revocation of the election) of the alternative simplified credit in Section B by a controlled group of corporations, see Regulations sections 1.41-9 and 1.41-9T.

For purposes of the reduced credit election, a member of a controlled group of corporations (within the meaning of section 41(f)(5)), or a trade or business which is treated as being under common control with other trades or businesses (within the meaning of section 41(f)(1)(B)), may make the election under section 280C(c)(3). However, only the common parent (within the meaning of section 1.1502-77(a)(1)(i)) of a consolidated group may make the election on behalf of the members of a consolidated group.

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## Specific Instructions

You can:

- Claim the regular credit in Section A, or
- Elect the alternative simplified credit in Section B.

You may want to figure your credit using both of the methods for which you are eligible to get the maximum credit allowed.

Once elected, the alternative simplified credit (ASC) applies to the current tax year and all later years. A current tax year's ASC election may not be revoked. You may revoke the election for a later tax year by completing Section A relating to the regular credit and attaching the Form 6765 to your timely filed (including extensions) original return for the year to which the revocation applies. See Regulations section 1.41-9(b)(3).

### Section A—Regular Credit

Skip this section and go to Section B if:

1. You are electing the alternative simplified credit, or
2. You previously elected the alternative simplified credit and are not revoking the election on this return.

Enter the amounts you paid or incurred to energy research consortia for energy research. Energy research does not include any research that is not qualified research. In general, an energy research consortium is any organization described in section 501(c)(3), exempt from tax under section 501(a), organized and operated

primarily to conduct energy research, and not a private foundation. See section 41(f)(6) for further details.

### Line 1

Any amount included on line 1 cannot be included elsewhere on the return.

### Line 2

Enter the amounts the corporation (not to include S corporations, personal holding companies, and service organizations) paid in cash, under a written contract, for basic research to a qualified university, scientific research organization, or grant organization. See section 41(e) for details, including the definitions of qualified organizations.

### Line 3

Enter the qualified organization base period amount based on minimum basic research amounts plus maintenance-of-effort amounts for the 3 preceding tax years. See section 41(e) for details.

### Line 7

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 8

Enter the amounts you paid or incurred, subject to the following limitations.

- 100% of amounts you paid (or incurred) for qualified energy research performed by: an eligible small business, a university, or a federal laboratory (see section 41(b)(3)(D) for definitions of those entities). Also include payments to those same entities to the extent they are included as basic research payments in line 2, not to exceed the base period amount in line 3.
- 75% of amounts you paid (or incurred) for qualified research by a qualified research consortium (as defined by section 41(b)(3)(C)(ii)). Also include 75% of the payments to a qualified research consortium to the extent they are included as basic research payments in line 2, not to exceed the base period amount in line 3.
- 65% of amounts you paid (or incurred) for all other qualified research by any other person. Also include 65% of the payments to that person to the extent they are included as basic research payments in line 2, not to exceed the base period amount in line 3.

**Note.** Prepaid contract research expenses are considered paid in the year the research is actually done.

### Line 10

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% (that is, 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).



*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 11

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).

For a tax year that the credit terminates, the average annual gross receipts for the 4 tax years preceding the termination tax year is prorated for the number of days the credit applied during the tax year. For more information, see section 41(h).

## Line 17

If you are electing the reduced research credit, you must complete Form 6765 (even if no research credits are claimed on the original return) and clearly indicate your intent to make the election. In order for the election to apply, the Form 6765 must be filed with your original timely filed (including extensions) return for the tax year. Once made, the election is irrevocable for that tax year.

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 capital account for the year for such expenses by the amount of the excess. Attach a statement 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 Simplified Credit

Complete this section only if, instead of the regular credit:

1. You are electing the alternative simplified credit, or
2. You previously elected the alternative simplified credit and are not revoking the election on this return.

**Electing the alternative simplified credit (ASC).** You elect the ASC by completing Section B and attaching the completed Form 6765 to your timely filed (including extensions) original return for the tax year the election applies. An ASC election can be made on an amended return for a tax year only if you had not previously claimed the research credit on an original return or amended return for that tax year. An extension of time to make the ASC election will not be granted.

## Line 29

Enter your qualified research expenses for the prior 3 tax years. If the credit terminates during the tax year, prorate the qualified research expenses for the prior 3 tax years for the number of days the credit applied during the tax year. For more information, see section 41(h).

## Section C—Summary

### Line 35

If the credit on line 17 or 34 includes amounts paid to employees as wages, and you are also claiming a credit for employer differential wage payments based on

payments you made to the same employees, enter on line 35 the portion of the credit from Form 8932, line 2, that is attributable to wages that were also used to figure the credit on line 17 or line 34 (whichever applies).

See Form 8932, Credit for Employer Differential Wage Payments, for more information on the credit.

## Line 37

Enter total credit for increasing research activities from:

- Schedule K-1 (Form 1065), Partner's Share of Income, Deductions, Credits, etc., box 15 (code M);
- Schedule K-1 (Form 1120S), Shareholder's Share of Income, Deductions, Credits, etc., box 13 (code M); and
- Schedule K-1 (Form 1041), Beneficiary's Share of Income, Deductions, Credits, etc., box 13 (code I).

Partnerships and S corporations must always report the above credits on line 37. Also, estates and trusts that can allocate the source credit to beneficiaries must always report the above credits on line 37. All other filers figuring

a separate credit on earlier lines must also report the above credits on line 37. All others not using earlier lines to figure a separate credit can report the above credits directly on Form 3800, Part III, line 1c.

## Line 39

**Estates and trusts.** Allocate the credit for increasing research activities on line 38 between the estate or trust and the beneficiaries in the same proportion as income was allocated and enter the beneficiaries' share on line 39.

If the estate or trust is subject to the passive activity rules, include on line 37 any credit for increasing research from passive activities disallowed for prior years and carried forward to this year. Complete Form 8582-CR, Passive Activity Credit Limitations, to determine the allowed credit that must be allocated between the estate or trust and the beneficiaries. For details, see the instructions for Form 8582-CR.

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**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 burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is shown below.

<b>Recordkeeping</b> . . . . .	10 hr., 31 min.
<b>Learning about the law or the form</b> . . . . .	2 hr., 25 min.
<b>Preparing and sending the form to the IRS</b> . . . . .	5 hr., 6 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.

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