

Appendix C – Computation of Adjusted ASC 730 Financial Statement R&D

<u>Line #</u>		<u>Year</u>
1	Financial Statement R&D	Step 1
1a	Subtract: All amounts related to foreign entities	XXX,XXX,XXX [A]
1b	Subtract: All amounts related to U.S. entities that are not included in taxpayer's consolidated federal income tax return	(XX,XXX,XXX)
		<u>(XX,XXX,XXX)</u>
2	U.S. Financial Statement R&D (Line 1 minus Line 1a and 1b)	XXX,XXX,XXX
2a	The Schedule M-3 amount (see instructions for Line 2a)	XXX,XXX,XXX
3	Adjustments to U.S. Financial Statement R&D	Step 2
3a	Subtract: Expenses for Software not for sale, lease, or otherwise marketed	XXX,XXX
3b	Subtract: Expenses identified under ASC 730-10-55-2 or other Non ASC 730 Expenditures	<u>XXX,XXX</u>
4	U.S. ASC 730 Financial Statement R&D (Line 2 minus Line 3a and Line 3b)	XXX,XXX,XXX [B]
	Subtractions from U.S. ASC 730 Financial Statement R&D	Step 3
5	All U.S. ASC 730 Financial Statement R&D GL Accounts or items specifically excluded from section 174, including but not limited to (i) Quality Control Testing; (ii) efficiency surveys; (iii) management studies; (iv) consumer surveys; (v) advertising or promotions; (vi) the acquisition of another's Patent, model, production or process; and (vii) research in connection with literary, historical or similar projects.	XX,XXX
6	All U.S. ASC 730 Financial Statement R&D GL Accounts and expenditures such as, depreciation, amortization, shipping, travel, training, rent, overhead, general and administrative expenses and all other items not eligible for section 41 QREs.	XX,XXX
7	All U.S. ASC 730 Financial Statement R&D costs incurred for all agreements/contracts pursuant to which the taxpayer performed ASC 730 research in order to comply with the terms of the agreements/contracts. These costs are to be subtracted regardless of whether incurred in connection with Funded Research.	XX,XXX
8	All U.S. ASC 730 Financial Statement R&D costs incurred for all persons other than the taxpayer's employees who performed ASC 730 research on behalf of the taxpayer.	XX,XXX
9	All U.S. ASC 730 Financial Statement R&D In-house Research performed outside the U.S.	XX,XXX
10	All Prototype Overhead expenses, patent costs and severance pay included in U.S. ASC 730 Financial Statement R&D.	XX,XXX
11	TOTAL SUBTRACTIONS STEP 3 (Total of Lines 5 through 10)	<u>(XXX,XXX)[C]</u>
11a	Subtotal U.S. ASC 730 Financial Statement R&D After Subtractions B - C = D	<u>XXX,XXX,XXX [D]</u>
12	U.S. ASC 730 Financial Statement R&D Employee Wage Adjustment Step 4	
	W-2 Wages for employee compensation added to U.S. ASC 730 Financial Statement R&D in this Step should NOT include any amounts relating to the above subtractions. Further, the W-2 Wages should only relate to Wage costs that are charged to U.S. ASC 730 Financial Statement Cost Centers.	
13	Subtract U.S. ASC 730 Financial Statement R&D Wage and Wage Related Accounts not already subtracted in the lines above.	(XX,XXX)
14	Subtract U.S. ASC 730 Financial Statement R&D Stock-Based Compensation not already subtracted in the lines above.	(XX,XXX)
	Amounts on Lines 15, 16 & 17 are calculated using Appendix D - Adjusted ASC 730 Financial Statement R&D Wage Detail.	
15	Add 95% of W-2 Wages for Qualified Individual Contributors.	XX,XXX
16	Add 95% of W-2 Wages for 1st Level Supervisor Managers.	XX,XXX
17	Add Upper Level Managers' Limit.	XX,XXX
18	TOTAL STEP 4 (Total of Lines 13 through 17)	<u>XX,XXX [E]</u>
19	ADJUSTED ASC 730 Financial Statement R&D D + E = F	<u>XXX,XXX,XXX [F]</u>
	ADJUSTED ASC 730 Financial Statement R&D: QRE AMOUNTS Step 5 cont. (Transfer these numbers to Appendix B Form 6765 "Adjusted ASC 730 Financial Stmt. R&D" Column)	
20	Wages for qualified services (Form 6765 Line 5 or 24)	XXX,XXX,XXX
21	Cost of supplies (Form 6765 Line 6 or 25)	XX,XXX,XXX
22	Rental or lease costs of computers (Form 6765 Line 7 or 26)	<u>XX,XXX,XXX</u>
	ADJUSTED ASC 730 Financial Statement R&D QRE AMOUNTS (Form 6765 Line 9 or 28)	<u>XXX,XXX,XXX</u>
		This Amount should equal [F]

Line # Instructions Appendix C

Step 1 Financial Statement R&D amounts reduced by foreign R&D

- 1 Report the amount of research and development costs currently expensed for U.S. GAAP purposes, which amount is shown as a line item on the taxpayer's income statement included in its Certified Audited Financial Statements or is separately stated in a note to its Certified Audited Financial Statements for the same year/period as the tax return.
- 1a Subtract all Book/GAAP R&D amounts for any foreign entities, i.e. non-U.S. entities such as Controlled Foreign Corporations.
- 1b Subtract all the Book/GAAP R&D amounts for any U.S. entities not included in the taxpayer's consolidated U.S. Federal Income Tax return.
- 2 Subtract Line 1a and 1b from Line 1. This figure should include GAAP R&D expenses for only U.S. entities included in the taxpayer's consolidated U.S. Federal Income Tax return.
- 2a The figure reported here should be the same amount as reported on: Form 1120, Sch. M-3, Part III, column (a), Line 35; Form 1120S, Sch. M-3, Part III, column (a), Line 29; or Form 1065, Sch. M-3, Part III, column (a), Line 29 (collectively the "Schedule M-3 amount"). Provide an explanation, if the Schedule M-3 amount is different than the amount on Line 3.

Step 2 Remove all GAAP Internal Use Software and non ASC 730 expenditures reported in the Financial Statement R&D amount

- For any software development activities performed and which costs are included in U.S. Financial Statement R&D, remove all software development costs for software that is not for sale, lease, or otherwise marketed by the taxpayer. Software sold to related parties or as part of a cost sharing arrangement for internal use is not software for sale, lease or otherwise marketed.
- 3a
- 3b Subtract any expenses identified under ASC 730-10-55-2 or any other Non ASC 730 expenditure that is included in the U.S. Financial Statement R&D. If these expenses are not included in the U.S. Financial Statement R&D, taxpayer must explain the methodology used to determine these expenses were not included in the taxpayer's Financial Statement R&D.
- 4 Subtract Lines 3a and 3b from Line 3. This is the U.S. ASC 730 Financial Statement R&D amount.

Step 3 Subtractions (not previously adjusted in Steps 1 & 2 above) from U.S. ASC 730 Financial Statement R&D

- 5 All U.S. ASC 730 Financial Statement R&D GL Accounts specifically excluded from section 174 including but are not limited to (i) Quality Control Testing; (ii) efficiency surveys; (iii) management studies; (iv) consumer surveys; (v) advertising or promotions; (vi) the acquisition of another's patent, model, production or process; or (vii) research in connection with literary, historical, or similar projects.
- 6 All U.S. ASC 730 Financial Statement R&D GL Accounts and expenditures such as depreciation, amortization, shipping, travel, training, rent, overhead, general and administrative expenses and all other items not eligible for section 41 QREs.
- 7 All U.S. ASC 730 Financial Statement R&D costs incurred for all agreements/contracts pursuant to which the taxpayer performed ASC 730 research in order to comply with the terms of the agreements/contracts. These costs are to be subtracted regardless of whether incurred in connection with Funded Research.
- 8 All U.S. ASC 730 Financial Statement R&D costs incurred for all persons other than the taxpayer's employees who performed ASC 730 research on behalf of the taxpayer.
- 9 All wages and related expenses for U.S. ASC 730 Financial Statement R&D for U.S. employees who leave the U.S. and perform research services outside of the U.S. Also, the wages and stock options associated with these individuals for ASC 730 research performed outside the U.S. should not be included on Lines 13 & 14, below. A similar adjustment for non-inclusion of ASC 730 research performed outside the U.S. is also required to be made to taxable W-2 wages captured on Lines 15, 16 & 17, below.
- 10 The amount of Prototype Overhead, patent costs and severance pay included in U.S. ASC 730 Financial Statement R&D.
- 11 Total Lines 5 through 10
- 11a Subtract Line 11 from Line 3

Step 4 U.S. ASC 730 Financial Statement R&D Employee Wage Adjustment

- 13 U.S. ASC 730 Financial Statement R&D Wage and Wage Related Accounts not already subtracted in the lines above.
- 14 U.S. ASC 730 Financial Statement R&D Stock-Based Compensation not already subtracted in the lines above.
- 15-17 Complete Appendix D – ASC 730 Financial Statement R&D Wage Detail. These wages represent taxable W-2 wages (Base Wages and Stock Options) for employees whose Wage costs are charged to U.S. ASC 730 Financial Statement Cost Centers.
- 18 Total Step 4. Total of Lines 13 through 17.

Step 5 ADJUSTED ASC 730 Financial Statement R&D

- 19 Add Lines 11 and 18. This is the Adjusted ASC 730 Financial Statement R&D amount.
- 20-22 For Lines 20 through 22, breakdown the amount of QREs reported on Line 19 to the appropriate lines on the Form 6765. Record these costs in Appendix B – Column headed "Adjusted ASC 730 Financial Statement R&D."