The material contained here provides general quick reference to IRC 41. It is not meant to imply that any specific audit technique or procedure be strictly adhered to.

**IRC 41(a)**
Research Tax Credit
- 20% X Excess QRE (i.e. Qualified Research Expense)
- **Excess QRE** = Total QRE - Base Amount
- **Base Amount** = Fixed-base % X Average Annual GR (i.e. Gross Receipts)
- Base amount cannot be less than 50% current yr. QRE, IRC 41(c)(2)
- Taxpayer must reduce their 174 deduction by an amount equal to the amount of the credit.

**280C Election made on ORIGINAL return.**

**Fixed-base Percentage**
- In General, IRC 41(c)(3)(A)
  - A taxpayer's fixed-base percentage is the percentage which the aggregate QRE of the taxpayer for taxable years beginning after December 31, 1983, and before January 1, 1989, is of the aggregate gross receipts of the taxpayer for such taxable years IRC 41(c)(3)(A).
  - The maximum fixed-base percentage is 16 percent, IRC 41(c)(3)(C).

**Fixed-base Percentage Start-up, IRC 41(c)(3)(B)**
- Start-up company is generally defined as a taxpayer who did not have both gross receipts and QRE during each of at least 3 taxable years beginning after 1983 and before 1989.
- IRC 41(c)(3)(B)(ii) assigns a fixed-base percentage of 5% in making the above computation for the first 5 taxable years beginning after the taxable year that TP has QRE after 1989.
- In years 6 through 8, a statutory fraction of the ratio between aggregate QRE and aggregate gross receipts is used to determine the start-up's fixed-base percentage after its initial 5-year period.
- The maximum fixed-base percentage is 16 percent, IRC 41(c)(3)(C).

**Elective Regime: Alternative Incremental Credit, IRC 41(e)(4)**
- **b** = Average annual Gross Receipts (prior 4 years)
- **CREDIT** = \( \frac{1}{4} \left( a - (0.4 \times b) - (a - (0.4 \times b)) \right) \) plus \( \frac{0.25}{4} \times \left( a - (0.4 \times b) - (a - (0.4 \times b)) \right) \) plus \( \frac{0.25}{4} \times \left( a - (0.4 \times b) \right) \)

TP may elect this method on their original return for taxable years beginning after 6/30/96.

1. The Tax Relief Infrastructures Act of 1999 amended section 41(e)(3)(A) by striking 1.65 percent and inserting 1.5 percent, by striking 2.2 percent and inserting 2.5 percent, and by striking 2.75 percent and inserting 1.75 percent.

This change applies to taxable years beginning after 6/30/99.