

RESEARCH AND DEVELOPMENT

TAX INCENTIVES FOR RESEARCH AND DEVELOPMENT ENGAGEMENTS

The state of Indiana offers two tax incentives targeted at encouraging investments in research and development. Taxpayers may receive a credit against their Indiana state income tax liability calculated as a percentage of qualified research expenses. In addition, taxpayers may be refunded sales tax paid on purchases of qualified research and development equipment. The Indiana Department of Revenue oversees these incentive programs.

RESEARCH EXPENSE CREDITS

A taxpayer may be eligible for a credit on qualified research expenses. The potential value of the credit is equal to the taxpayer's qualified research expense for the taxable year, minus the base period amount up to \$1 million, multiplied by 15 percent. A credit percentage of up to 10 percent is applied to any excess of qualified research expense over a base period amount greater than \$1 million. Additionally, for Indiana qualified research expenses incurred after December 31, 2009, an alternative method of calculating the credit is available. At the taxpayer's election, the amount of the taxpayer's research expense tax credit is equal to ten percent of the part of the taxpayer's Indiana qualified research expense for the taxable year that exceeds fifty percent of the taxpayer's average Indiana qualified research expense for the three taxable years preceding the taxable year for which the credit is being determined. However, if the taxpayer did not have Indiana qualified research expenses in any one of the three taxable years preceding the taxable year for which the credit is being determined, the amount of the research expense tax credit is equal to five percent of the taxpayer's Indiana qualified research expense for the taxable year. Credits awarded pursuant to the relevant statutory provisions may be carried forward for up to ten taxable years. For more details on the calculation of the credit, please refer to IC 6-3.1-4.

There is a 100 percent sales tax exemption for qualified research and development equipment and property purchased. Taxpayers may file a claim for refund for sales tax paid on such a retail transaction should they not purchase it exempt from sales tax at the time of the actual transaction.

QUALIFYING CRITERIA

An Indiana qualified research expense is defined as the sum of the following amounts, incurred by the taxpayer during the taxable year: wages paid to employees, supplies, services for qualified research or supervision of research activities. Qualified research expense is defined by Section 41(b) of the Internal Revenue Code as in effect on January 1, 2001. In prescribing what qualifies as a research expense, the Department of Revenue may consider the following:

- » The place where the services are performed
- » The residence or business location of the person or persons performing the services
- » The place where qualified research supplies are consumed
- » Other factors that the department deems relevant

RESEARCH AND DEVELOPMENT SALES TAX EXEMPTION

There is a 100 percent sales tax exemption for qualified research and development equipment and property purchased. Taxpayers may file a claim for refund for sales tax paid on such a retail transaction should they not purchase it exempt from sales tax at the time of the actual transaction.

QUALIFYING CRITERIA

Research and development equipment and property is defined as tangible personal property that has not previously been used in Indiana for any purpose and is acquired by the purchaser for the purpose of research and development activities devoted to experimental or laboratory research and development for new products, new uses of existing products, or improving or testing existing products.

POTENTIAL VALUE OF INCENTIVE

The amount varies based upon the amount of the qualifying transaction.

Application Process—A taxpayer who qualifies for the exemption must claim the exemption in a manner prescribed by the Indiana Department of Revenue.

The form used to claim the exemptions is available at www.in.gov/dor