
PART V CALCULATION OF RESEARCH AND DEVELOPMENT TAX CREDIT CARRYOVER

NOTE: Generally, this credit may be carried over for seven (7) years following the credit's tax year, however, certain types of research qualify for a fifteen (15) year carryover. See instructions for Part V.

25. Enter amount from line 18	25.	
26. Enter amount from line 24	26.	
27. Research and Development Tax Credit Carryover - line 25 minus line 26	27.	

Instructions for Form 306

Research and Development Tax Credit for Taxable Periods Beginning On and After January 1, 2012

ITEMS TO NOTE

- A credit can be claimed for only those research activities that are performed in New Jersey.
- A credit for increased research activities is allowed based on qualified expenditures made in taxable years beginning on and after January 1, 1994.
- The filing of a consolidated tax return by a controlled group of corporations is not permitted.
- Section references are to the Internal Revenue Code unless otherwise noted.
- For periods beginning on and after January 1, 2002, any deductions for research and experimental expenditures, to the extent that those research and experimental expenditures are qualified research expenses or basic research payments for which an amount of credit is claimed pursuant to section 1 of P.L.1993, c.175 (C.54:10A-5.24) unless those research and experimental expenditures are also used to compute a federal credit claimed pursuant to section 41 of the Federal Internal Revenue Code of 1986, 26 U.S.C. s.41, if applicable, must be added back on Schedule A of the CBT-100, CBT-100S or BFC-1 return on the line for "Other deductions and additions". Refer to the Schedule A instructions for the appropriate return.

PURPOSE OF FORM

Use form 306 to calculate and claim the credit for increasing the research activities of a trade or business. Complete Parts I through IV to compute the research credit.

QUALIFIED RESEARCH ACTIVITIES

The research and development tax credit is generally allowed for qualified research activities. Qualified research activities are limited to scientific experimentation or engineering activities designed to aid in the development of a new or improved product, process, technique, formula, invention, or computer software program held for sale, lease, or license, or used by the taxpayer in a trade or business. For in-house research expenses (see I.R.C. 41(b)(2)), this trade or business requirement will be met if the principal purpose for conducting the research is to use the results of the research in the active conduct of a future trade or business.

See I.R.C. 41(b)(4).

The research and development tax credit is generally not allowed for the following types of activities:

1. Research conducted after the beginning of commercial production;
2. Research adapting an existing product or process to a particular customer's need;
3. Duplication of an existing product or process;
4. Survey or studies;
5. Research relating to certain internal use computer software;
6. Research conducted outside the State of New Jersey;
7. Research in the social sciences, arts, or humanities; or
8. Research funded by another person (or governmental entity).

See I.R.C. 41 for other definitions and special rules concerning the research credit.

WHO MUST FILE

A corporation claiming a credit for increasing research activities should complete this form and attach it to its tax return.

A New Jersey S-Corporation is allowed to claim a credit in connection with increasing research activities to the extent of its New Jersey corporation tax liability. Pass through of this credit to shareholders is not permitted.

See I.R.C. 41(f) for special rules related to:

1. Adjustments if a major portion of a business is acquired or disposed of; and
2. Short tax years.

CREDIT CARRYOVER

If the research credit cannot be used because of tax liability limitations, it may be carried forward for either 7 or 15 years. See the instructions for Part V. Complete Part V to document any tax credit carryover.

Specific Instructions for Form 306

PART I

CREDIT CALCULATION FOR BASIC RESEARCH PAYMENTS

Line 1 - Corporations are eligible for a "basic research" credit if your payments in cash to a qualified university or scientific research organization (under a written contract) exceed a base period amount (based on your general university giving and certain other maintenance-of-effort levels for the three preceding years). Enter your payments on line 1. See I.R.C. 41(e) for details.

Line 2 - Enter the base period amount as defined in I.R.C. 41(e) but not more than the amount on line 1.

PART II

CREDIT CALCULATION FOR QUALIFIED RESEARCH EXPENSES

Lines 4 through 7 - pertain to qualified research expenditures paid or incurred.

IMPORTANT NOTE: Property and expenditures included in the calculation of the Research and Development Tax Credit are not permitted to be included in the calculation of the Recycling Equipment Tax Credit, the Manufacturing Equipment and Employment Investment Tax Credit or the New Jobs Investment Tax Credit.

Line 6 - See I.R.C. 41(b)(2)(A) for rules on leased property if the taxpayer received payments for the rental or lease of substantially identical property.

Line 7 - Include 65% (.65) of any amount paid or incurred for qualified research performed on the taxpayer's behalf. Prepaid tract research expenses are considered paid in the year the research is actually done. Also include 65% (.65) of that portion of the line 1 basic research payments that does not exceed the line 2 base amount. See I.R.C. 41(e)(1)(B).

Line 9 - Compute the fixed base percentage as follows

Existing firms - The fixed base percentage is the ratio that the aggregate qualified research expenses for at least 3 tax years from 1984 to 1988 bear to the aggregate gross receipts everywhere (Schedule A, line 1 of the New Jersey Form CBT-100, CBT-100S or BFC-1) for such tax years. Round off the percentage to the nearest 1/100th of 1% (i.e. four decimal places).

If taxpayer has research within and outside New Jersey and cannot determine the amount of New Jersey qualified research expenses for the period beginning after December 31, 1983 and before January 1, 1989, calculate the amount to be used in the numerator of the ratio for line 9 as follows: take the figure for qualified research and development expenses everywhere for the period and multiply it by the average of the payroll fraction and the property fraction used on the corporation business tax returns for the corresponding years in question. This amount becomes the numerator of a fraction whose denominator is taxpayer's aggregate gross receipts everywhere for the period.

Start-up companies - For tax years beginning before January 1, 1994, the fixed-base percentage is 3% if you have fewer than 3 taxable years beginning after December 31, 1983 and before January 1, 1989, in which you had both gross receipts and qualified research expenses. If the percentage computation involves de minimis amounts of gross receipts and qualified expenses in a tax year or short tax years are involved, see I.R.C. 41(c)(3) and 41(f)(4).

For tax years beginning after December 31, 1993, the fixed-base percentage is 3% for each of the first five tax years for which there were qualified research expenses. However, the fixed-base percentage for the sixth through tenth years after 1993 in which qualified research expenses are incurred is a portion of the percentage (rounded to 1/100th of one percent) which qualified research expenses bear to gross receipts everywhere for specified preceding years as follows:

1. **for the sixth year**, one-sixth of the percentage which qualified research expenses bear to gross receipts everywhere for its fourth and fifth years;
2. **for the seventh year**, one-third of the percentage which qualified research expenses bear to gross receipts everywhere for the fifth and sixth years;
3. **for the eighth year**, one-half of the percentage which qualified research expenses bear to gross receipts everywhere for its fifth through seventh years;
4. **for the ninth year**, two-thirds of the percentage which qualified research expenses bear to gross receipts everywhere for its fifth through eighth years; and
5. **for the tenth year**, five-sixths of the percentage which qualified research expenses bear to gross receipts everywhere for its fifth through ninth years.

For subsequent tax years, the taxpayer's fixed-base percentage will be the whole percentage which qualified research expenditures bear to gross receipts everywhere for any five years selected by the taxpayer from the fifth through tenth tax years.

NOTE: The maximum percentage that can be entered on line 9 is 16%.

Line 10 - Enter the average annual gross receipts everywhere for the four tax years preceding the tax year for which the credit is being determined (called the credit year). The taxpayer may be required to annualize gross receipts for any short tax year. See I.R.C. 41(c)(1)(B) and 41(f)(4).

For purposes of lines 9 and 10, reduce gross receipts everywhere for any tax year by returns and allowances made during the tax year. In the case of a foreign corporation, include only gross receipts that are effectively connected with the trade or business within the United States.

Line 13 - The base amount cannot be less than 50% (.50) of the current year qualified research expenses. The rule applies to existing and newly organized businesses.

PART III

TOTAL RESEARCH AND DEVELOPMENT TAX CREDIT

The total research and development tax credit available on line 18 is one of several credits that are allowed under the Corporation Business Tax Act. Complete Part IV to determine the amount of credit allowable for the current tax period.

PART IV

CALCULATION OF THE ALLOWABLE CREDIT AMOUNT

- a) The allowable research and development tax credit is calculated in Part IV. The amount of this credit in addition to the amount of any other tax credits taken cannot exceed an amount which would reduce the total tax liability below the statutory minimum.
- b) The minimum tax is assessed based on the New Jersey Gross Receipts as follows:

New Jersey Gross Receipts	CBT-100	CBT-100S
Less than \$100,000	\$500.00	\$375.00
\$100,000 or more but less than \$250,000	\$750.00	\$562.00
\$250,000 or more but less than \$500,000	\$1,000.00	\$750.00
\$500,000 or more but less than \$1,000,000	\$1,500.00	\$1,125.00
\$1,000,000 or more	\$2,000.00	\$1,500.00

provided however that for a taxpayer that is a member of an affiliated or controlled group which has a total payroll of \$5,000,000 or more for the return period, the minimum tax shall be \$2,000. Tax periods of less than 12 months are subject to the higher minimum tax if the prorated total payroll exceeds \$416,667 per month.

- c) The priorities set forth in this Corporation Business Tax form follow Regulation N.J.A.C. 18:7-3.17.

PART V

RESEARCH AND DEVELOPMENT TAX CREDIT CARRYOVER

Although there is a limitation of the amount of credit allowed in any one tax year, generally the amount of unused tax credit may be carried forward to each of the seven (7) accounting years following the credit's tax year. (N.J.S.A. Sec. 54:10A-5.24, ¶95-880u).

A taxpayer that has been allowed a research and development credit for the fiscal or calendar accounting period (tax year) in which the qualified research expenses have been incurred, and basic research payments have been made, for research conducted in New Jersey in the fields of advanced computing, advanced materials, biotechnology, electronic device technology, environmental technology, and medical device technology, are allowed to carry over the amount of the tax year credit that could not be applied for the tax year to each of the 15 tax years following the credit's tax year. (N.J.S.A. Sec. 54:10A-5.24b, ¶95-880v(1)).