

Department of the Treasury
Internal Revenue Service

▶ **Attach to your tax return.**

Name(s) shown on return

Identifying number

Section A—Regular Credit. Skip this section and go to Section B if you are electing or previously elected (and are not revoking) the alternative incremental credit.

1	Certain amounts paid or incurred to energy consortia (see instructions)				1		
2	Basic research payments to qualified organizations (see instructions)						
3	Qualified organization base period amount						
4	Subtract line 3 from line 2. If zero or less, enter -0-				4		
5	Wages for qualified services (do not include wages used in figuring the work opportunity credit)						
6	Cost of supplies						
7	Rental or lease costs of computers (see instructions)						
8	Enter the applicable percentage of contract research expenses (see instructions)						
9	Total qualified research expenses. Add lines 5 through 8						
10	Enter fixed-base percentage, but not more than 16% (see instructions)					%	
11	Enter average annual gross receipts (see instructions)						
12	Multiply line 11 by the percentage on line 10						
13	Subtract line 12 from line 9. If zero or less, enter -0-						
14	Multiply line 9 by 50% (.50)						
15	Enter the smaller of line 13 or line 14				15		
16	Add lines 1, 4, and 15				16		
17a	Are you electing the reduced credit under Section 280C? ▶ Yes <input type="checkbox"/> No <input type="checkbox"/>						
	If "Yes," and you are not electing the alternative simplified credit in Section C, multiply line 16 by 13% (.13). If "No," or you are electing the alternative simplified credit in Section C, multiply line 16 by 20% (.20). Also, see the instructions for the schedule that must be attached if you checked "No." Members of controlled groups or businesses under common control: see instructions for the schedule that must be attached				17a		
b	If your tax year ended after December 31, 2006, and you are electing the alternative simplified credit in Section C, multiply line 17a by the applicable 2006 percentage (see instructions)				17b		

Section B—Alternative Incremental Credit. Skip this section if you completed Section A.

18	Certain amounts paid or incurred to energy consortia (see the line 1 instructions)				18		
19	Basic research payments to qualified organizations (see the line 2 instructions)						
20	Qualified organization base period amount (see the line 3 instructions)						
21	Subtract line 20 from line 19. If zero or less, enter -0-				21		
22	Add lines 18 and 21				22		
23	Multiply line 22 by 20% (.20)				23		
24	Wages for qualified services (do not include wages used in figuring the work opportunity credit)						
25	Cost of supplies						
26	Rental or lease costs of computers (see the line 7 instructions)						
27	Enter the applicable percentage of contract research expenses (see the line 8 instructions)						
28	Total qualified research expenses. Add lines 24 through 27						
29	Enter average annual gross receipts (see the line 11 instructions)						
30	Multiply line 29 by 1% (.01)						
31	Subtract line 30 from line 28. If zero or less, enter -0-						
32	Multiply line 29 by 1.5% (.015)						
33	Subtract line 32 from line 28. If zero or less, enter -0-						
34	Subtract line 33 from line 31						
35	Multiply line 29 by 2% (.02)						
36	Subtract line 35 from line 28. If zero or less, enter -0-						
37	Subtract line 36 from line 33						

Section B—Alternative Incremental Credit *(continued)*

38	Multiply line 34 by 2.65% (.0265) (for a tax year ending after December 31, 2006, see instructions for percentage)	38		
39	Multiply line 37 by 3.2% (.032) (for a tax year ending after December 31, 2006, see instructions for percentage)	39		
40	Multiply line 36 by 3.75% (.0375) (for a tax year ending after December 31, 2006, see instructions for percentage)	40		
41	Add lines 23, 38, 39, and 40	41		
42a	Are you electing the reduced credit under Section 280C? ► Yes <input type="checkbox"/> No <input type="checkbox"/> If “Yes,” and you are not electing the alternative simplified credit in Section C, multiply line 41 by 65% (.65). If “No,” or you are electing the alternative simplified credit in Section C, enter the amount from line 41. Also, see the line 17a instructions for the schedule that must be attached if you checked “No.” Members of controlled groups or businesses under common control: see instructions for the schedule that must be attached	42a		
b	If your tax year ended after December 31, 2006, and you are electing the alternative simplified credit in Section C, multiply line 42a by the applicable 2006 percentage (see instructions)	42b		

Section C—Alternative Simplified Credit (for tax years ending after December 31, 2006). Also complete Section A or B.

43	Certain amounts paid or incurred to energy consortia (see the line 1 instructions)	43		
44	Basic research payments to qualified organizations (see the line 2 instructions)	44		
45	Qualified organization base period amount (see the line 3 instructions)	45		
46	Subtract line 45 from line 44. If zero or less, enter -0-	46		
47	Add lines 43 and 46	47		
48	Multiply line 47 by 20% (.20)	48		
49	Wages for qualified services (do not include wages used in figuring the work opportunity credit)	49		
50	Cost of supplies	50		
51	Rental or lease costs of computers (see the line 7 instructions)	51		
52	Enter the applicable percentage of contract research expenses (see the line 8 instructions)	52		
53	Total qualified research expenses. Add lines 49 through 52	53		
54	Enter your total qualified research expenses for the prior 3 tax years. If you had no qualified research expenses in any one of those years, skip lines 55 and 56	54		
55	Divide line 54 by 6.0	55		
56	Subtract line 55 from line 53. If zero or less, enter -0-	56		
57	Multiply line 56 by 12% (.12). If you skipped lines 55 and 56, multiply line 53 by 6% (.06)	57		
58	Add lines 48 and 57	58		
59	Multiply line 58 by the applicable 2007 percentage (see instructions)	59		
60	Add line 17b or line 42b (whichever applies) and line 59	60		
61	Are you electing the reduced credit under Section 280C? ► Yes <input type="checkbox"/> No <input type="checkbox"/> If “Yes,” multiply line 60 by 65% (.65). If “No,” enter the amount from line 60 and see the line 17a instructions for the schedule that must be attached. Members of controlled groups or businesses under common control: see instructions for the schedule that must be attached	61		

Section D—Summary

62	Credit for increasing research activities from partnerships, S corporations, estates, and trusts	62		
63	If you did not complete Section C, add line 17a or line 42a (whichever applies) to line 62. If you completed Section C, add lines 61 and 62. Estates and trusts go to line 64; partnerships and S corporations, report this amount on Schedule K; all others, report this amount on line 1d of Form 3800	63		
64	Amount allocated to beneficiaries of the estate or trust (see instructions)	64		
65	Estates and trusts: subtract line 64 from line 63. Report the credit on line 1d of Form 3800	65		

General Instructions

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

What's New

- The tax liability limit is no longer figured on this form; instead, it must be figured on Form 3800, General Business Credit.
- Taxpayers that are not partnerships, S corporations, estates, or trusts, and whose only source of this credit is from those pass-through entities, are not required to complete or file this form. Instead, they can report this credit directly on line 1d of Form 3800.
- For tax years ending after December 31, 2006, the alternative incremental credit in Section B is modified and the new alternative simplified credit in Section C is available.

Purpose of Form

Use Form 6765 to figure and claim the credit for increasing research activities.

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.

Qualified Research

The research credit is generally allowed for expenditures paid or incurred for qualified research. *Qualified research* means research for which expenditures 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. 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 and 1.41-7 for special rules related to:

- Aggregation of expenditures 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 expenditures 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. As a member, compute your credit based on your proportionate share of qualified research expenses and basic research payments giving rise to the

group's research credit for Section A, B, or C. Enter your share of the credit on line 17a, 42a, or 61, whichever applies. Attach a statement showing how your share of the credit was figured, and write "See Attached" next to the entry space for line 17a, 42a, or 61.

For special rules regarding the election (or revocation of the election) of the alternative incremental credit in Section B by a controlled group of corporations, see Regulations section 1.41-8 (Temporary Regulations section 1.41-8T for short tax years ending before November 9, 2006).

Specific Instructions

If your tax year ends before 2007, you can claim either the regular credit in Section A or elect the alternative incremental credit in Section B. If your tax year ends after 2006, you can:

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

You may want to figure your credit using all of the methods for which you are eligible to get the maximum credit allowed. If you elect the alternative simplified credit in Section C, you must also complete either Section A or Section B. If you elect or previously elected the alternative incremental credit in Section B (and are not revoking the election on this return) and you also elect the alternative simplified credit in Section C, both elections will apply to the tax year that includes January 1, 2007. However, if you elect both the alternative incremental credit and the alternative simplified credit, the election of the alternative incremental credit will be considered revoked for the following tax year.

Once elected, the alternative incremental credit or the alternative simplified credit applies to the current tax year and all later tax years, unless you revoke the election. The revocation for the alternative incremental credit must be made on an original return filed by the due date (including extensions). See Regulations section 1.41-8 (Temporary Regulations section 1.41-8T for short tax years

ending before November 9, 2006). To revoke a previous election of the alternative incremental credit, complete section A (and C if applicable).

The revocation must be on an original return filed by the due date (including extensions).

Section A—Regular Credit

Skip this section and go to Section B if:

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

Line 1

Enter the amounts you paid or incurred to energy research consortia. 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.

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 three 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).

Line 17a

If you do not elect the reduced credit, which can only be claimed on an original timely filed return (with extensions), 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 schedule 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.

Line 17b

If your tax year ends after 2006 and you are **also** electing the alternative simplified credit in Section C, multiply line 17a by the applicable 2006 percentage from the table below. If your tax year was a short tax year or a 52-53 week tax year, do not use the table. Instead, figure the applicable 2006 percentage by dividing the number of days in your tax year during 2006 by the total number of days in your tax year.

End of Tax Year	Applicable 2006 Percentage
January 31, 2007	91.51%
February 28, 2007	83.84%
March 31, 2007	75.34%
April 30, 2007	67.12%
May 31, 2007	58.63%
June 30, 2007	50.41%
July 31, 2007	41.92%
August 31, 2007	33.42%
September 30, 2007	25.21%
October 31, 2007	16.71%
November 30, 2007	8.49%

Section B—Alternative Incremental Credit

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

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

If your tax year ends after December 31, 2006, you can also elect the alternative simplified credit by completing Section C.

Line 38

If your tax year ends after 2006 and:

1. You are **also** electing the alternative simplified credit in Section C, multiply line 34 by **2.65%**.
2. You are **not** electing the alternative simplified credit in Section C and:
 - a. Your fiscal year was a full 12 months, multiply line 34 by the applicable percentage from the table below.

End of Tax Year	Percentage
January 31, 2007	2.68%
February 28, 2007	2.71%
March 31, 2007	2.74%
April 30, 2007	2.77%
May 31, 2007	2.79%
June 30, 2007	2.82%
July 31, 2007	2.85%
August 31, 2007	2.88%
September 30, 2007	2.91%
October 31, 2007	2.94%
November 30, 2007	2.97%

b. Your tax year was a short tax year or a 52-53 week tax year, enter on line 38 the result of the following calculation:

$$\text{Line 34} \times \frac{\text{Number of days in tax year during 2006} \times 2.65\%}{\text{Total number of days in tax year}} + \frac{\text{Number of days in tax year during 2007} \times 3.0\%}{\text{Total number of days in tax year}}$$

Line 39

If your tax year ends after 2006 and:

1. You are **also** electing the alternative simplified credit in Section C, multiply line 37 by **3.2%**.
2. You are **not** electing the alternative simplified credit in Section C and:
 - a. Your fiscal year was a full 12 months, multiply line 34 by the applicable percentage from the table below.

End of Tax Year	Percentage
January 31, 2007	3.27%
February 28, 2007	3.33%
March 31, 2007	3.40%
April 30, 2007	3.46%
May 31, 2007	3.53%
June 30, 2007	3.60%
July 31, 2007	3.66%
August 31, 2007	3.73%
September 30, 2007	3.80%
October 31, 2007	3.87%
November 30, 2007	3.93%

b. Your tax year was a short tax year or a 52-53 week tax year, enter on line 39 the result of the following calculation:

$$\text{Line 37} \times \frac{\text{Number of days in tax year during 2006} \times 3.2\%}{\text{Total number of days in tax year}} + \frac{\text{Number of days in tax year during 2007} \times 4.0\%}{\text{Total number of days in tax year}}$$

Line 40

If your tax year ends after 2006 and:

1. You are **also** electing the alternative simplified credit in Section C, multiply line 36 by **3.75%**.
2. You are **not** electing the alternative simplified credit in Section C and:
 - a. Your fiscal year was a full 12 months, multiply line 36 by the applicable percentage from the table below.

