

**Table 1. Corporations Claiming a Credit for Increasing Research Activities on Form 6765 [2]
Selected Items, by Sectors, Tax Year 2012**

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Item	All sectors	Sectors														
		Agriculture, forestry, and hunting	Mining	Utilities	Construction	Manufacturing	Wholesale and retail trade	Transportation and warehousing	Information	Finance and insurance	Real estate, rental, and leasing	Professional, scientific, and technical services	Management of companies (holding companies)	Administrative/ support and waste management services	Various services [8]	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	
Number of Returns Claiming a Credit on Form 6765 [3]	15,873	59	81	67	240	6,219	1,071	58	1,583	304	82	5,280	403	148	278	
Section A-Regular Credit. [7]																
1 Certain amounts paid/incurred to energy consortia.....	54,251	0	0	52,977	0	*1,175	[1]	0	0	0	0	*99	0	0	0	
2 Basic research payments paid or incurred.....	167,396	0	0	*2,210	0	40,542	*518	0	*83,255	0	0	29,553	9,781	0	*1,538	
3 Qualified organization base period amount.....	652,366	0	0	0	43	292,231	4,093	0	*321,272	0	0	34,686	0	0	41	
5 Wages for qualified services.....	36,027,666	*15,781	*22,075	*87,565	*92,570	21,446,573	*3,946,799	*58,322	*3,252,476	*769,137	*63,377	5,653,763	*348,177	*91,604	*179,447	
6 Cost of supplies.....	9,825,525	*20,631	*21,854	11,276	18,183	7,394,733	886,480	*46	61,745	*685	4,636	1,363,965	886	*2,007	38,398	
7 Rental or lease costs of computers.....	29,235	0	0	0	253	5,069	33	0	*644	0	0	22,685	0	0	*551	
8 Applicable percentage of contract research expense.....	9,797,170	*4,182	*7,716	179,211	27,046	5,667,149	671,783	*11,766	353,143	322,867	26,289	2,313,589	143,605	13,351	55,473	
9 Total qualified research expenses (sum 5-8) [4].....	55,674,020	*40,595	51,646	278,052	138,052	34,513,368	5,505,094	*70,135	3,662,604	1,092,690	*94,301	9,353,987	492,667	106,962	273,868	
11 Average annual gross receipts [5].....	9,254,381,652	*946,061	*3,276,280	61,842,175	14,583,969	1,040,166,762	238,564,477	*39,321,903	158,843,717	7,412,864,328	2,404,549	126,535,249	142,172,716	2,819,684	10,039,782	
12 Base amount.....	15,543,684	*8,668	*10,835	103,329	24,834	10,884,062	1,563,337	*30,450	809,003	116,525	18,979	1,915,924	11,155	15,072	31,512	
17 Regular Credit [6].....	3,438,134	*3,413	3,410	23,344	8,554	2,174,430	287,477	*4,529	258,338	64,211	*4,282	547,141	33,355	7,121	18,530	
Section B-Alternative Simplified Credit. [7]																
18 Certain amounts paid or incurred to energy consortia.....	120,630	0	811	100,900	0	15,781	3,138	0	0	[1]	0	[1]	0	[1]	0	
19 Basic research payments to qualified organizations.....	129,723	307	[1]	1,292	0	99,141	19,087	0	[1]	[1]	0	*9,449	0	*447	0	
20 Qualified organization base period amount.....	468,831	0	*321	7	[1]	344,049	*12,172	0	98,389	0	7,344	2,086	0	4,462	0	
24 Wages for qualified services.....	99,413,316	61,793	469,008	79,229	223,892	58,145,143	8,460,162	120,027	22,418,841	1,400,227	325,742	6,872,555	229,900	384,860	221,938	
25 Cost of supplies.....	19,138,212	28,857	556,682	8,518	22,253	15,973,268	1,381,591	*12,331	326,108	4,209	17,391	606,984	*2,194	175,403	22,423	
26 Rental or lease costs of computers.....	140,476	0	700	0	0	27,849	19,855	10,028	*8,501	45,600	9,613	12,801	0	5,224	306	
27 Enter the applicable percent of contract research expenses.....	21,991,435	6,119	215,528	139,717	16,910	12,731,657	3,354,201	105,941	1,914,656	700,695	52,498	2,476,175	*149,351	58,944	69,042	
28 Total qualified research expenses (sum 24-27) [4].....	140,687,454	96,769	1,241,919	227,347	263,055	86,877,917	13,222,180	248,327	24,668,105	2,150,730	405,244	9,966,276	381,445	624,431	313,709	
29 Enter total qualified research for prior 3 tax years.....	356,593,330	270,241	2,445,750	606,016	626,194	236,556,391	34,733,746	489,184	49,908,001	4,649,142	877,474	22,621,267	716,854	1,336,076	756,993	
34 Alternative Simplified Credit [6].....	7,275,659	4,663	75,491	28,126	15,167	4,394,843	476,278	14,831	1,477,620	121,875	23,394	566,949	23,730	36,040	16,652	
Section C-Current-Year Credit.																
37 Passthrough rsrch cr(s) from prtshp, S corp, est, or trust.....	168,916	216	713	169	730	66,338	5,411	1,084	11,363	39,467	296	13,292	28,095	1,662	*81	
38 Current-year credit for Increasing Research Activities [3][6].....	10,842,567	8,239	79,614	51,640	24,074	6,594,799	769,282	20,444	1,747,717	226,544	28,087	1,126,862	85,180	44,822	35,263	

Source: Statistics of Income Division: 2012 Corporate Returns Data

Notes:

* Estimate should be used with caution because of the small number of returns on which it was based.

[1] This amount is less than \$500.

[2] Includes returns of active corporations, other than Forms 1120S, 1120-REIT, and 1120-RIC

[3] Number of credit claimants and Line 38 amount both include corporations that only reported data on Line(s) 37 and/or 38.

[4] Line 9 and Section B line 28 do not equal the sum of their components as shown in this table, because some corporations only reported these total lines.

[5] Line 11, Average annual gross receipts, are defined as the average annual gross receipts for the 4 tax years preceding the tax year for which the credit is being determined.

[6] Line 17 and Section B line 34, and line 38 include credit amounts for which some corporations did not provide component data.

[7] Component data for each section also includes amounts for those credit claimants not claiming the specific section credit.

[8] "Various Services" include educational services; health care and social assistance; arts, entertainment, and recreation; accommodation and food services; and other services.



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**Table 2. Corporations Claiming a Credit for Increasing
Research Activities [1]
Number of Credit Claimants and Claimed Credit Amounts by
Size of Business Receipts [2]
Tax Year 2012**

[All figures are estimates based on samples]

Size of Business Receipts (in whole dollars)	Returns	Current-Year Credit Amounts (\$1,000s)
Under \$25,000	2,176	364,153
\$25,000 under \$100,000	223	15,050
\$100,000 under \$250,000	300	22,557
\$250,000 under \$500,000	489	22,757
\$500,000 under \$1,000,000	762	32,143
\$1,000,000 under \$2,500,000	1,339	66,049
\$2,500,000 under \$5,000,000	1,377	83,993
\$5,000,000 under \$10,000,000	1,439	121,183
\$10,000,000 under \$50,000,000	3,399	440,053
\$50,000,000 under \$100,000,000	1,017	219,259
\$100,000,000 under \$250,000,000	1,056	388,649
\$250,000,000 or more	2,295	9,066,724
Total	15,873	10,842,567

Source: Statistics of Income Division: 2001 - 2012 Corporate Returns Data

Notes:

Detail may not add due to rounding.

[1] Includes returns of active corporations, other than Forms 1120S, 1120-REIT, and 1120-RIC

[2] "Business Receipts" is defined as the gross operating receipts of the corporation reduced by the cost of returned goods and allowances



Table 3.1 Sample Calculation: Increase in R&E Credit from 10-Percent Increase in Qualified Research Expenses for Firm Using the Regular Method and Unconstrained by 50-Percent Minimum Base

				Increase QRE by 10 percent
Line			(1)	(2)
1	Current-year qualified research expenses (QRE)		100	110
2	Average annual gross receipts		1000	1000
3	Fixed-base percentage		6%	6%
4	Tentative base for regular credit	Line 1 X Line 3	60	60
5	Minimum 50-percent base	Line 1 X 0.5	50	55
6	QRE above base	Line 1 - Line 4	40	50
7	Credit Rate		20%	20%
8	Reduced credit rate	Line 7 X 0.65	13%	13%
9	Current-year credit	Line 6 X Line 8	5.2	6.5
10	Increase in current-year credit	Column (2) - Column (1)	n.a.	1.3
11	Increase in QRE	Column (2) - Column (1)	n.a.	10
12	Effective credit rate	Line 10 /Line 11		13%
13	Average credit rate	Line 9/Line 1	5.2%	5.9%

Table 3.2 Sample Calculation: Increase in R&E Credit from 10-Percent Increase in Qualified Research Expenses for Firm Using the Regular Method and Constrained by 50-Percent Minimum Base

				Increase QRE by 10 percent
Line			(1)	(2)
1	Current-year QRE		100	110
2	Average annual gross receipts		1000	1000
3	Fixed-base percentage		4%	4%
4	Tentative base for regular credit	Line 1 X Line 3	40	40
5	Minimum 50-percent base	Line 1 X 0.5	50	55
6	QRE above base	Line 1 - Line 5	50	55
7	Credit Rate		20%	20%
8	Reduced credit rate	Line 7 X 0.65	13%	13%
9	Current-year credit	Line 6 X Line 8	6.5	7.15
10	Increase in current-year credit	Column (2) - Column (1)	n.a.	0.65
11	Increase in QRE	Column (2) - Column (1)	n.a.	10
12	Effective credit rate	Line 10 /Line 11		6.5%
13	Average credit rate	Line 9/Line 1	6.5%	6.5%



Table 3.3 Sample Calculation: Increase in R&E Credit from 10-Percent Increase in Qualified Research Expenses for Firm Using the Alternative Simplified Credit (ASC)

				Increase QRE by 10 percent
Line			(1)	(2)
1	Current-year QRE (Year 0)		100	110
2	QRE in Year - 1		95	95
3	QRE in Year - 2		90	90
4	QRE in Year - 3		85	85
5	Past 3-year average QRE	(Line 2 + Line 3 + Line 4)/3	90	90
6	Base amount for current year	Line 5 X 0.5	45	45
7	QRE above base	Line 1 - Line 6	55	65
8	Credit rate		14.0%	14.0%
9	Reduced credit rate	Line 8 X 0.65	9.1%	9.1%
10	Current-year credit	Line 7 X Line 9	5.01	5.92
11	Change in current-year credit	Column (2) - Column (1)	n.a.	0.91
12	Increase in QRE	Column (2) - Column (1)	n.a.	10
13	QRE in Year 1		105	105
14	Base amount for Year 1	(Line 1 + Line 2 + Line 3)/6	47.50	49.17
15	QRE above base for Year 1	Line 13 - Line 14	57.50	55.83
16	Credit amount in Year 1	Line 14 X Line 9	5.23	5.08
17	Change in credit in Year 1	Column (2) - Column (1)	n.a.	-0.15
18	QRE in Year 2		110	110
19	Base amount for Year 2	(Line 1 + Line 2 + Line 13)/6	50.00	51.67
20	QRE above base for Year 2	Line 18 - Line 19	60.00	58.33
21	Credit amount in Year 2	Line 20 X Line 9	5.46	5.31
22	Change in credit in Year 2	Column (2) - Column (1)	n.a.	-0.15
23	QRE in Year 3		115	115
24	Base amount for Year 3	(Line 1 + Line 13 + Line 18)/6	52.50	54.17
25	QRE above base for Year 3	Line 23 - Line 24	62.50	60.83
26	Credit amount in Year 3	Line 25 X Line 9	5.69	5.54
27	Change in credit in Year 3	Column (2) - Column (1)	n.a.	-0.15
28	Change in total credit	Line 11 + Line 17 + Line 22 + Line 27	n.a.	0.46
29	Effective credit rate (no discounting)	Line 28/Line 12	n.a.	4.6%
30	Discount rate		n.a.	5.0%
31	Effective credit rate		n.a.	5.0%
32	Average credit rate	Line 10/Line 1	5.0%	5.4%



Table 4. Statutory, Effective, and Average R&E Credit Rates by Calculation Method, and Share of Returns and Qualified Research Expenses, by Calculation Method for Corporate Taxpayers, Tax Year 2013 (percent)

Line		Regular method: Unconstrained by minimum base	Regular method: Constrained by 50-percent minimum base	Alternative Simplified Credit (ASC)
1	Statutory credit rate	20	20	14
2	Reduced credit rate	13.0	13.0	9.1
3	Effective credit rate with no carryforward ¹	13.0	6.5	5.0
4	Effective credit rate with average carryforward ²	10.7	5.3	4.1
5	Average credit rate ³	5.6	6.5	5.2
6	Share of returns ³	5	44	51
7	Share of qualified research expenses (QRE) ³	3	28	69

Notes:

1. This assumes firms have sufficient tax liability to use the full credit in the current year.
2. According to OTA calculations on average 82 percent of the current-year credit will eventually be used
3. According to OTA calculations using the 2013 SOI corporate sample. Returns not reporting information in appropriate fields for the calculations were dropped. This eliminated 9 percent of returns, but these returns only accounted for 1 percent of the reported credit.



Table 5. Sample Cost of Capital and Effective Tax Rate Calculations for Investment in Equipment Versus Research and Experimentation (R&E)¹

		No tax preference	Equipment with 7-year tax life	R&E Tax Incentives			
				Expensing of R&E expenditures	Regular credit: Unconstrained by minimum base	Regular credit: Constrained by 50-percent minimum base	Alternative Simplified Credit (ASC)
		(1)	(2)	(3)	(4)	(5)	(6)
Corporate statutory tax rate	t	35%	35%	35%	35%	35%	35%
Inflation rate	π	2%	2%	2%	2%	2%	2%
Nominal discount rate	r	7%	7%	7%	7%	7%	7%
Real return on equity	$r - \pi$	5%	5%	5%	5%	5%	5%
Economic depreciation rate ²	δ	15%	15%	15%	15%	15%	15%
Present-value of depreciation deductions	z	0.75	0.85	1.00	1.00	1.00	1.00
R&E effective credit rate	k	0.0%	0.0%	0.0%	13.0%	6.5%	5.0%
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Before-tax rate of return (gross) ³	c	22.7%	21.7%	20.0%	16.0%	18.0%	18.5%
Before-tax rate of return (net) ⁴	ρ	7.7%	6.7%	5.0%	1.0%	3.0%	3.5%
Effective tax rate ⁵	ETR	35.0%	25.0%	0.0%	-400.0%	-66.7%	-44.1%

Notes:

1. This assumes an equity-financed investment with one-level of tax.
2. Economic depreciation rates will vary depending on the specific investment type, assumed to equal in table for illustration.
3. This equals the user cost of capital, which is calculated as $(r - \pi + \delta)(1 - tz - k)/(1 - t)$.
4. This the real pre-tax rate of return net of depreciation. $\rho = c - \delta$
5. $ETR = (\rho - (r - \pi))/\rho$

