Research & Development Tax Credit Workgroup

Joint Committee on Semiconductors
Wednesday, April 5, 2023

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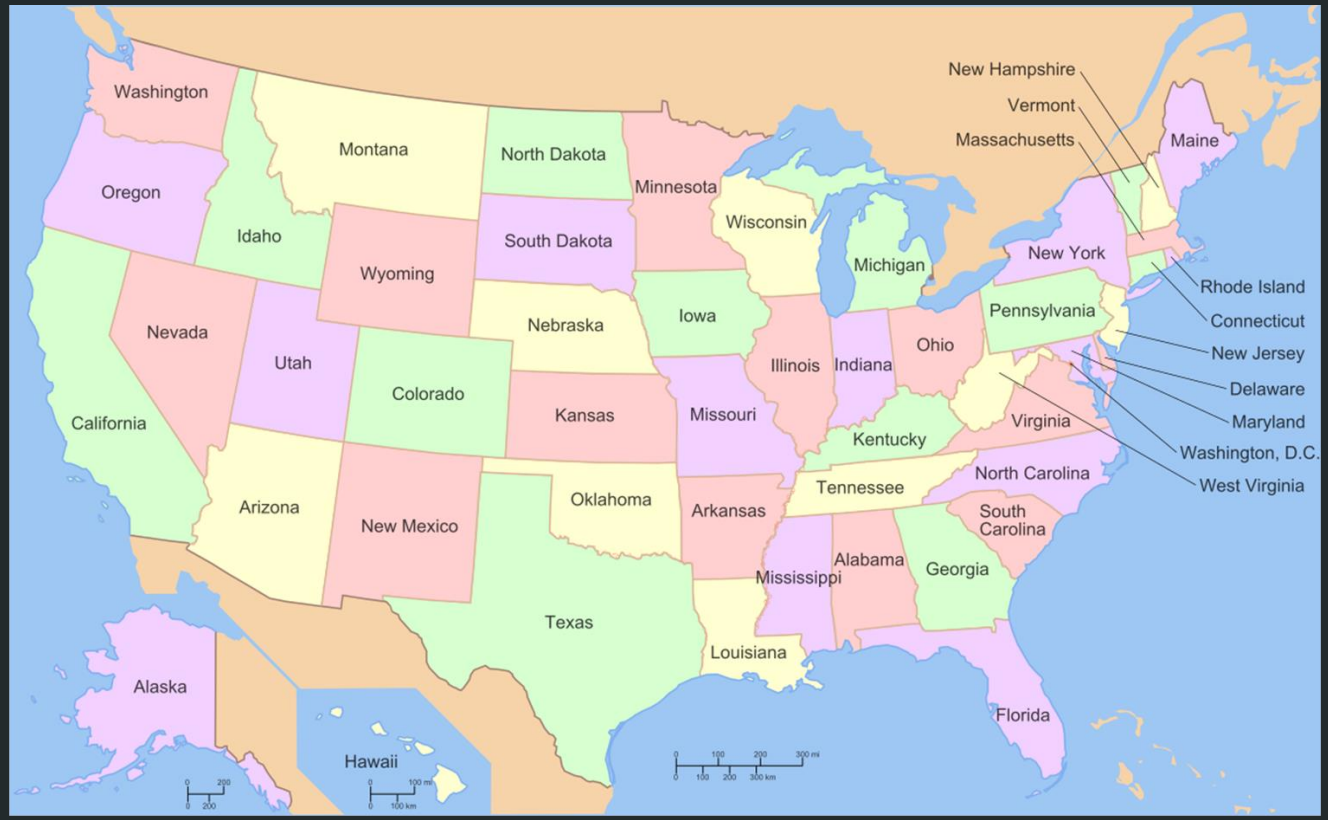
Representative Nancy Nathanson



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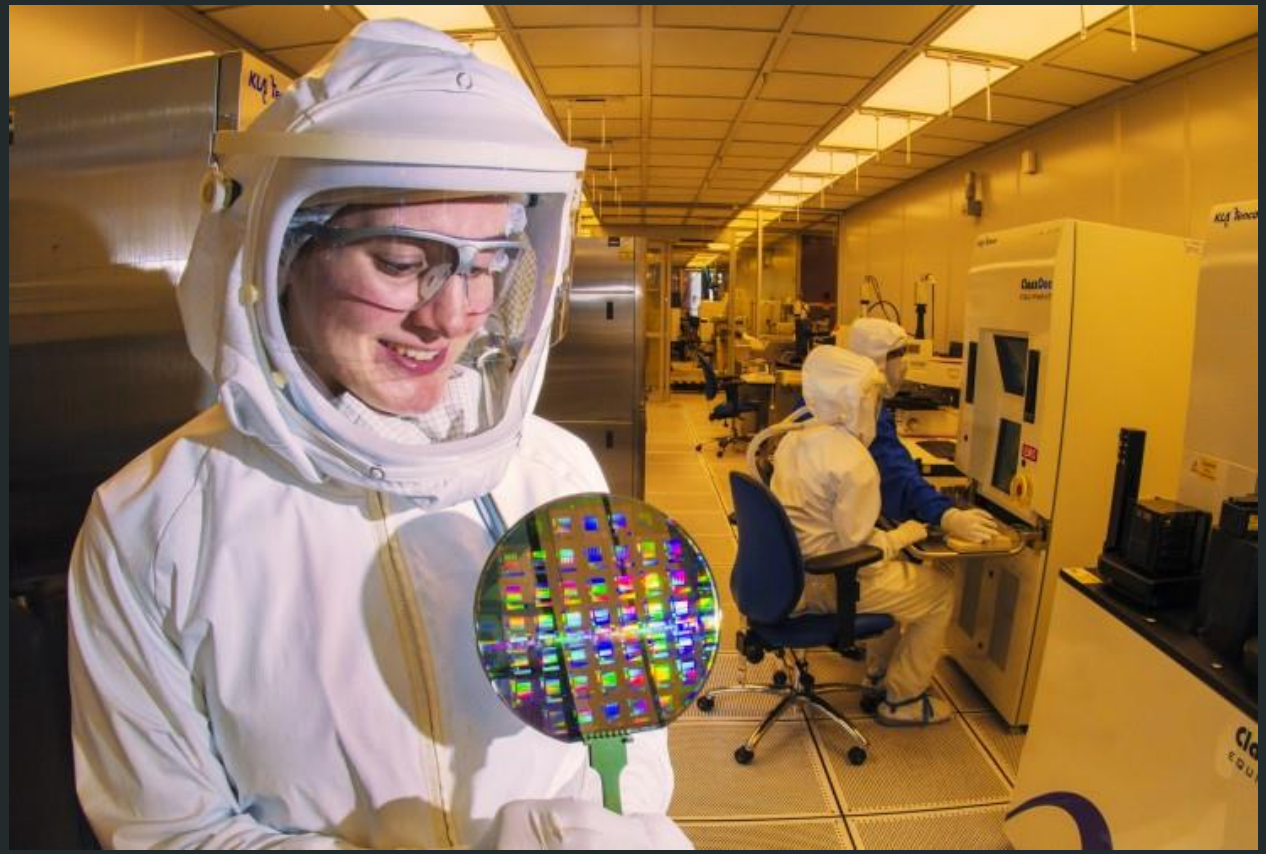

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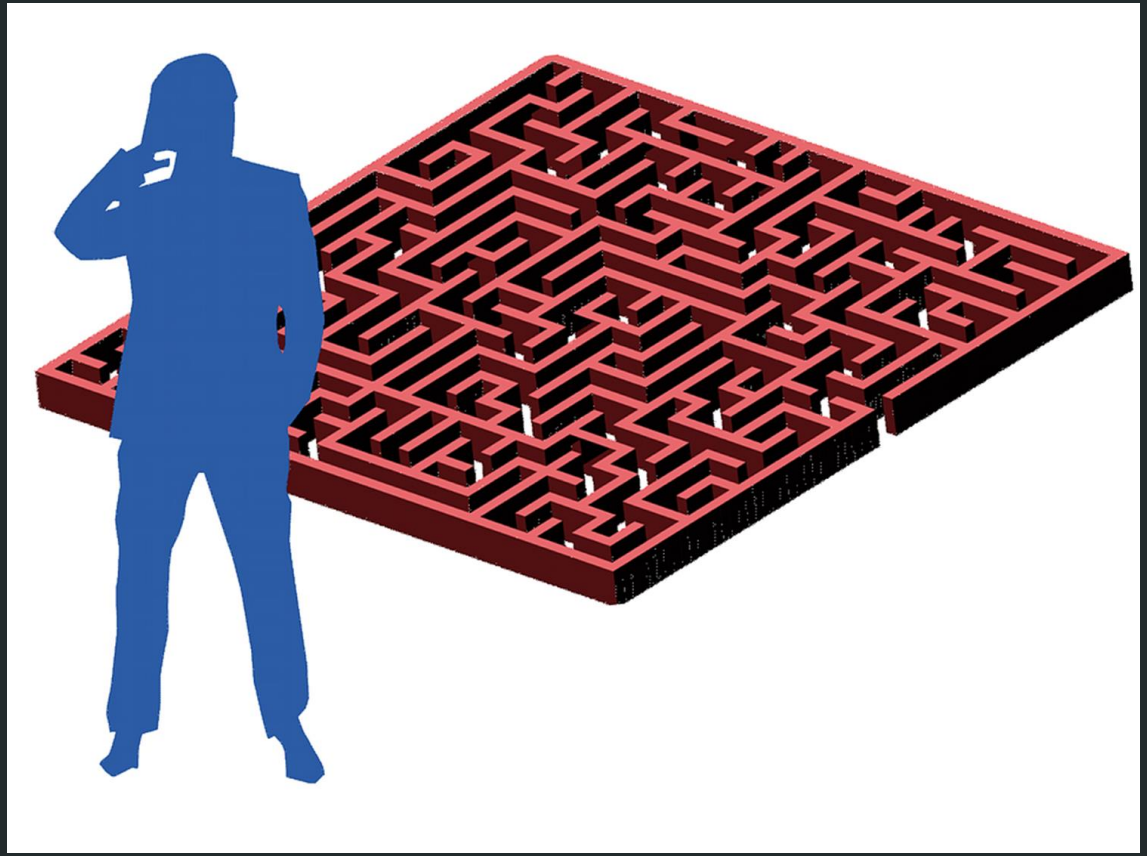

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$$S(\omega) = \frac{\alpha g^2}{\omega^5} e^{[-0.74\left\{\frac{\omega U_\omega 19.5}{g}\right\}^{-4}]}$$

$$= \frac{\alpha g^2}{\omega^5} \exp\left[-0.74\left\{\frac{\omega U_\omega 19.5}{g}\right\}^{-4}\right]$$

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who

tax base

credit (formula)

refundability & carryforward

cap

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Eligibility

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Tax Credit Structure

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Other Points

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Eligibility: Business Type, Industry, and Location

EXAMPLES

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EXAMPLES

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Example; For illustrative purposes only

Example: Company Profiles

	Company A (Large)	Company B (Medium)	Company C (Small)
# of Employees	1,000+	400	80
R&D Base Amount	$100 million	$15 million	$3 million
Qualified Research Expense (QRE)	$130 million	$30 million	$9 million
Tax Liability	$6 million	$2 million	$750,000

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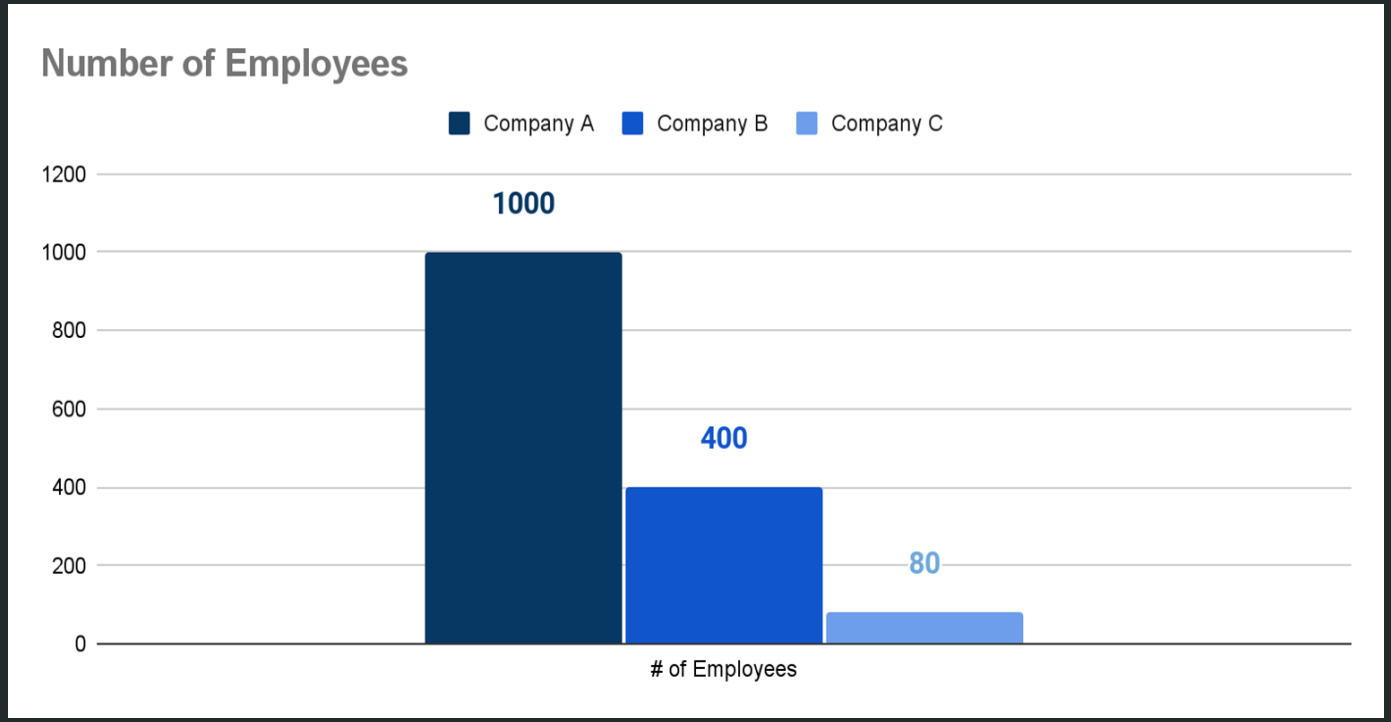
Example; For illustrative purposes only

Example: Company Profiles



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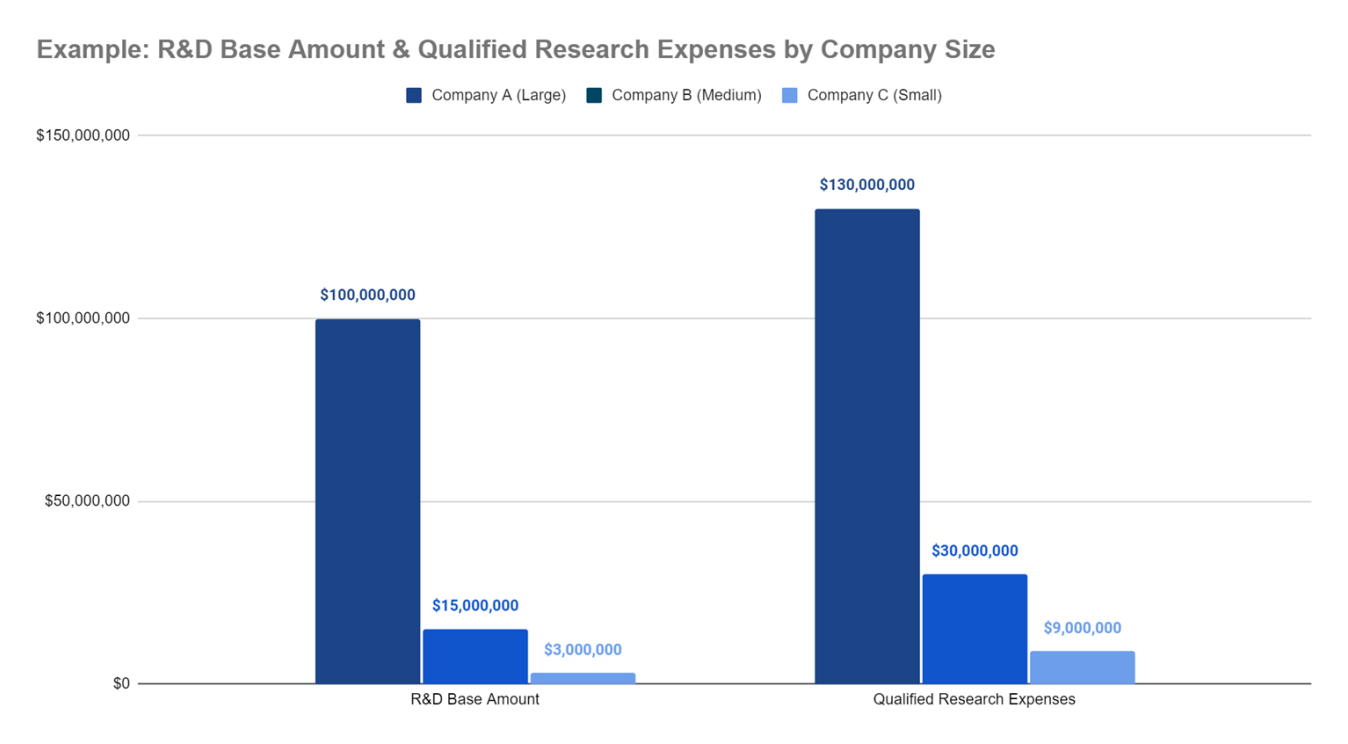
Example; For illustrative purposes only

Example: Company Profiles



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Example #1

FORMULA

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Example; For illustrative purposes only

Formula: How it is Calculated

R&D Base Spending: Taxpayer's historical R&D activity

Qualified Research Expenses (QRE): Taxpayer's new (higher) R&D spending

Tax Credit Base: Base amount from which the tax credit is calculated

Tax Credit Base = Qualified Research Expenses minus R&D Base Spending

Tax Credit Amount = Tax Credit Base multiplied by 25%

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Example; For illustrative purposes only

Formula: Example

Company A: Qualified Research Expense: $130 million | R&D Base Spending: $100 million
Tax Credit Base = $30 million
Formula (25% of Tax Credit Base) = $7.5 million credit

Company B: Qualified Research Expense: $30 million | R&D Base Spending: $15 million
Tax Credit Base = $15 million
Formula (25% of Tax Credit Base) = $3.75 million credit

Company C: Qualified Research Expense: $9 million | R&D Base Spending: $3 million
Tax Credit Base = $6 million
Formula (25% of Tax Credit Base) = $1.5 million credit

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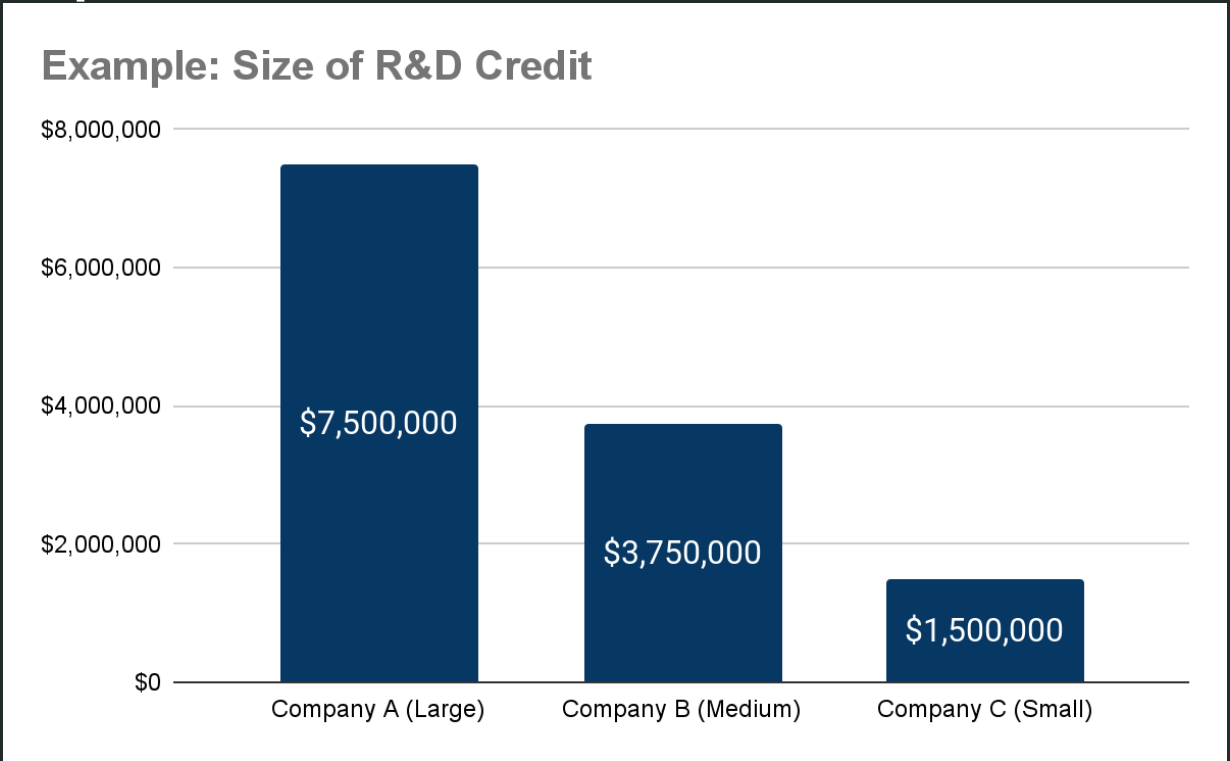
Example; For illustrative purposes only

Formula: Example



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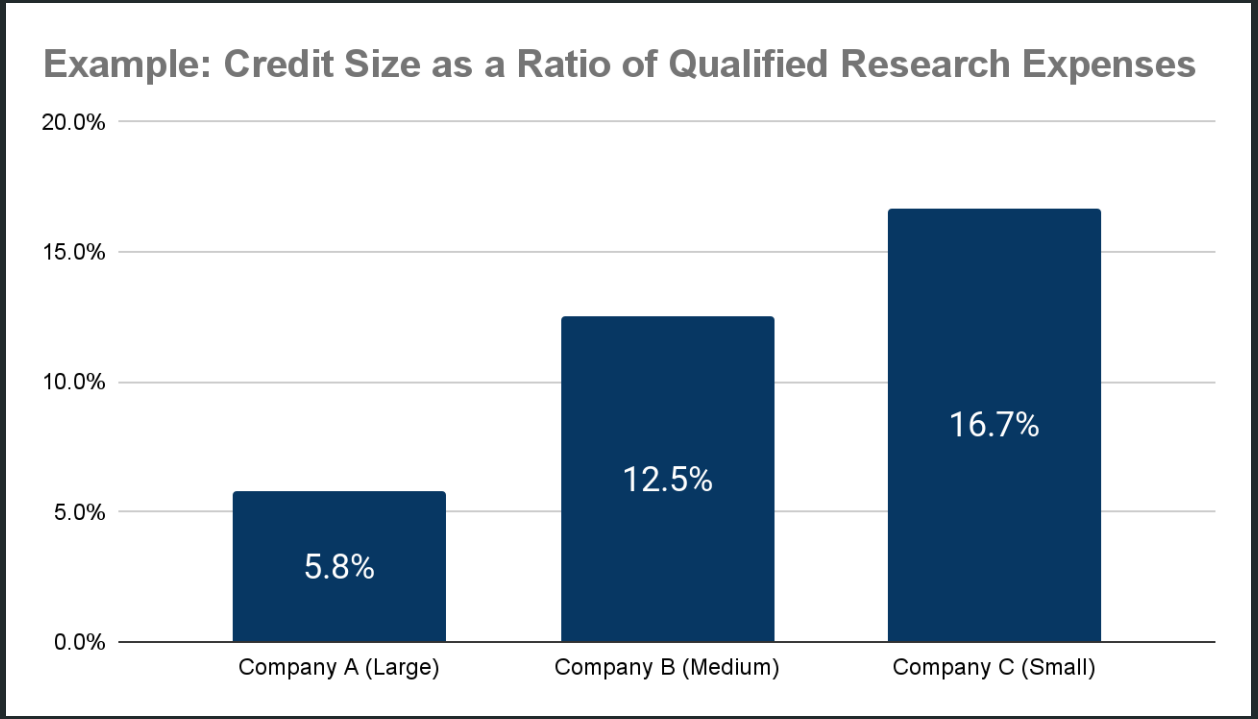
Example; For illustrative purposes only

Formula: Example



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Example #2

CAP/MAXIMUM

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Example; For illustrative purposes only

Cap/Maximum

Company A: Qualified Research Expense: $130 million | R&D Base Spending: $100 million
Number of Employees = 1,000+
Cap/Maximum = $10 million

Company B: Qualified Research Expense: $30 million | R&D Base Spending: $15 million
Number of Employees = 400
Cap/Maximum = $10 million

Company C: Qualified Research Expense: $9 million | R&D Base Spending: $3 million
Number of Employees = 80
Cap/Maximum = $5 million

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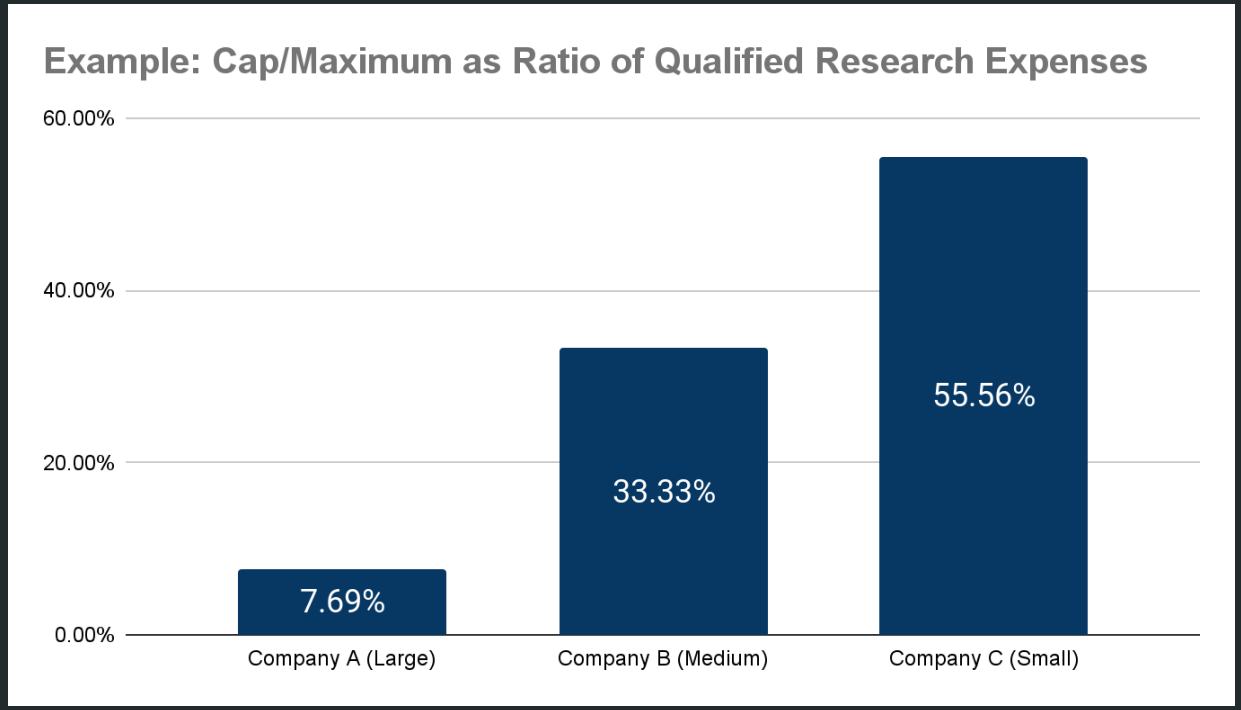
Cap/Maximum



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Example #3

REFUNDABILITY AND CARRYFORWARD

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Example; For illustrative purposes only

Refundability and Carryforward: Example

Company A: Tax Liability: $6 million | Size of R&D Credit: $7.5 million | Number of Employees: 1,000+
Refundability: 0%
Carryforward: $1.5 million *(for up to 5 years)*
Refundable Credit = $0

Company B: Tax Liability: $2 million | Size of R&D Credit: $3.75 million | Number of Employees: 400
Refundability: 50%
Carryforward: $875,000 *(for up to 5 years)*
Refundable Credit = $875,000

Company C: Tax Liability: $750,000 | Size of R&D Credit: $1.5 million | Number of Employees: 80
Refundability: 100%
Carryforward: N/A
Refundable Credit = $750,000

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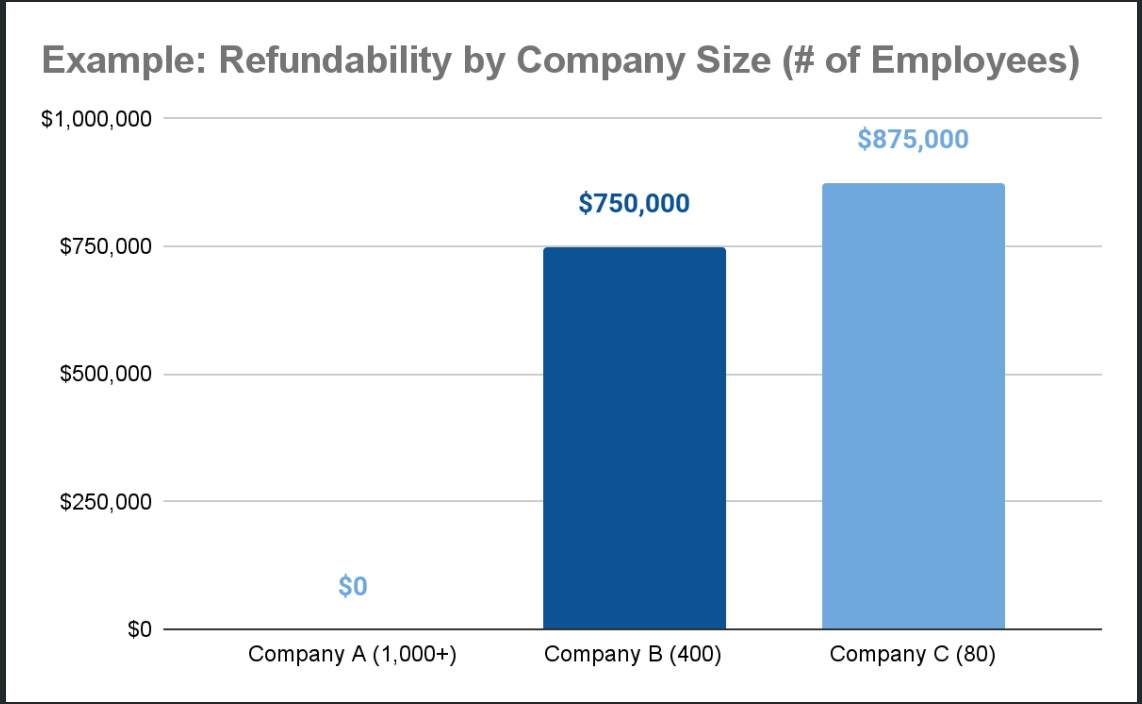
Refundability and Carryforward: Example



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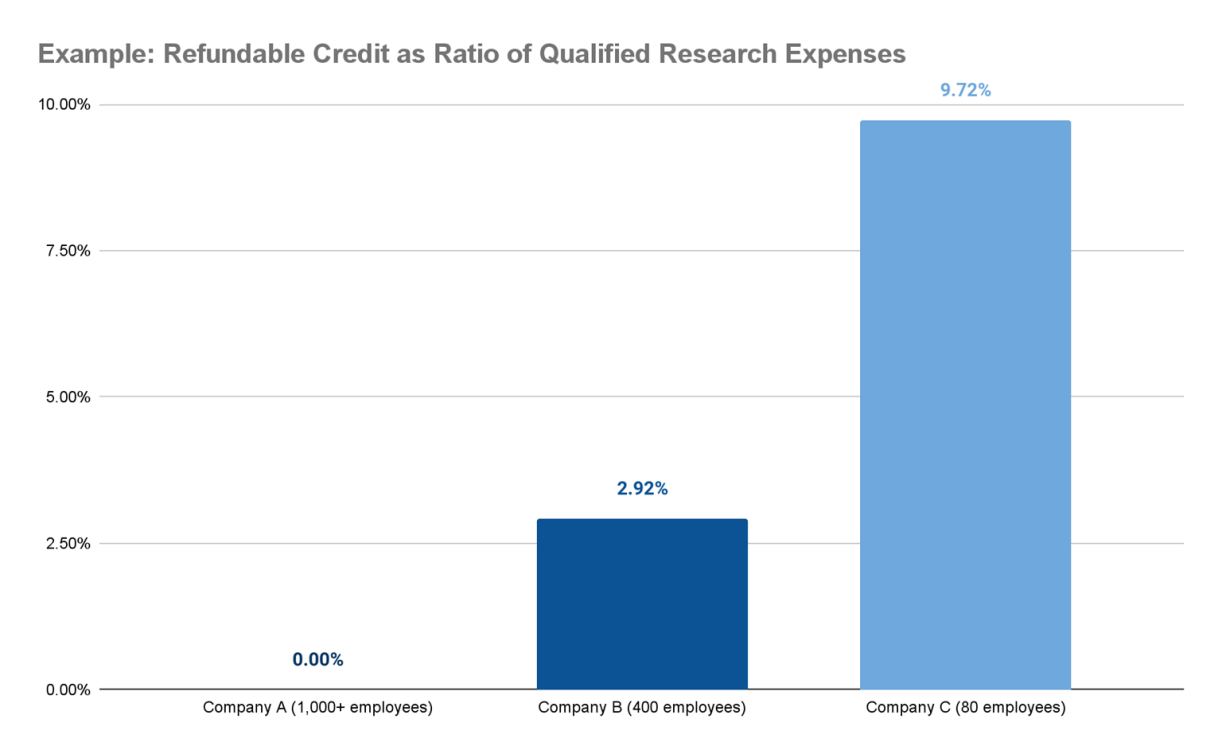
Refundability and Carryforward: Example



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