

Technology Development Article 3F Credits - NC-478I

Article 3F provides a credit for qualified North Carolina research and development expenses and a credit for interactive digital media that are available to all taxpayers regardless of business type. Taxpayers claiming Article 3F credits must meet the following general eligibility requirements:

- Meet the wage standard
- Provide health insurance for employees
- Have a good environmental record
- Have a good Occupational Safety and Health Act (OSHA) record
- Have no overdue tax debts with the State

Article 3F credits are not taken in installments but must be taken in the year expenses are incurred. Any unused portion of the credit may be carried forward for fifteen succeeding years.

Qualified North Carolina Research Expenses. A taxpayer that has qualified North Carolina research expenses is allowed a credit equal to a percentage of expenses, determined as provided below:

- small business - 3.25%
- low-tier research - 3.25%
- university research - 20%
- eco-industrial park - 35%
- other expenses (dependent upon level of expenses) - 1.25% to 3.25% .

Important. Only one credit is allowed with respect to the same expenses incurred. If more than one category applies to the same expenses, then the credit equals the higher percentage, not both percentages combined.

Interactive Digital Media. The credit for interactive digital media (effective for taxable years beginning on or after 1-1-11) is for an industry that develops in this State interactive digital media or a digital platform or engine for use in interactive digital media. The credit is equal to a percentage of the taxpayer's qualifying expenses that exceed \$50,000. The allowable percentages are (1) 20% of the allowable expenses paid to a participating community college or a research university and (2) 15% for other allowable expenses. The credit may not exceed \$7,500,000.

Important. You can not claim the credit for interactive digital media if you claimed any other credit allowed in Chapter 105 of the North Carolina revenue laws, a JDIG, or a One North Carolina Fund grant with respect to the expenses used to determine the credit. In addition, the credit does not apply to interactive digital media that meets any of the following:

- Developed for internal use
- Is an interpersonal communications service
- Is an internet site that is primarily static
- Is a gambling or casino game
- Is a political advertisement
- Is obscene

The following instructions for completing Part 1 through Part 7 of NC-478I apply to individuals, S corporations claiming the credit against franchise tax, and C corporations. Partnerships, S corporations claiming the credit against income tax, and other

pass-through entities, see the specific instructions for pass-through entities located after the instructions for Part 7.

Part 1. Qualifying Information. *(The information requested for Part 1 is for a single establishment at which qualified research expenses or interactive digital media expenses occurred in North Carolina during tax year 2011. If you had qualified research expenses or interactive digital media expenses at more than one establishment in 2011, complete a separate NC-478I for each establishment.)*

Type of Research Expenses. Fill in all applicable circles related to the type of research expenses incurred in North Carolina.

Name, Address and County at which Credit is Generated. Enter the name, address, and county of each location where research expenses or interactive digital media expenses were incurred in North Carolina.

Other Business Information. Taxpayers must provide health insurance for all full-time positions at each location where research expenses or interactive digital media expenses were incurred in North Carolina. The insurance must be provided to the employees at the time the research expenses or interactive digital media expenses were incurred and must be maintained every year the credit or a carryforward of the credit is claimed. Taxpayers must provide with the tax return certification that health insurance is provided to all full-time positions at the location where the activity occurred.

Part 2. Computation of Credit for Research Performed in an Eco-Industrial Park. *(The information requested for Part 2, Lines 1 and 2, is the cumulative total of all qualified research expenses during tax year 2011 and will be the same on all NC-478Is filed. Note. If you complete Part 2, do not complete Parts 3, 4 or 5 of NC-478I for the same qualified expenses.)*

Line 1. Enter the total amount of research expenses performed in an eco-industrial park.

Line 2. Multiply Line 1 by 35.0%. **This is the amount of credit for research performed in an eco-industrial park.**

Part 3. Computation of Credit for North Carolina University Research Expenses. *(The information requested for Part 3, Lines 3 and 4, is the cumulative total of all qualified research expenses during tax year 2011 and will be the same on all NC-478Is filed. Note. If you complete Part 3, do not complete Parts 2, 4 or 5 of NC-478I for the same qualified expenses.)*

Line 3. Enter the total amount of North Carolina university research expenses.

Line 4. Multiply Line 3 by 20.0%. **This is the amount of credit for North Carolina university research expenses.**

Part 4. Computation of Credit for Qualified North Carolina Small Business Research Expenses. *(The information requested for Part 4, Lines 5 and 6, is the cumulative total of all qualified research expenses during tax year 2011 and will be the same on all NC-478Is filed. Note. If you complete Part 4, do not complete Parts 2, 3 or 5 of NC-478I for the same qualified expenses.)*

Line 5. Enter the total amount of qualified North Carolina small business research expenses.

Line 6. Multiply Line 5 by 3.25%. **This is the amount of credit**

for qualified North Carolina small business research expenses.

Part 5. Computation of Credit for Qualified North Carolina Low-Tier and Other Research Expenses. *(The information requested for Part 5, Lines 7 through 11, is the cumulative total of all qualified research expenses during tax year 2011 and will be the same on all NC-478Is filed. Note. If you complete Part 5, do not complete Parts 2, 3 or 4 of NC-478I for the same qualified expenses.)*

Line 7. Enter the total amount of qualified North Carolina low-tier and other research expenses not included in Parts 2 through 4.

Line 8. Enter the total amount of qualified North Carolina low-tier research expenses.

Line 9. Multiply Line 8 by 3.25%. **This is the amount of credit for qualified North Carolina low-tier research expenses.**

Line 10. Subtract Line 8 from Line 7. This is the total amount of qualified North Carolina other research expenses.

Line 11. Multiply Line 10 by the following percentages and add the amounts:

- Multiply the first \$50 million by 1.25%
- Multiply the amount over \$50 million but no more than \$200 million by 2.25%
- Multiply the amount over \$200 million by 3.25%

This is the amount of credit for qualified North Carolina other research expenses in 2011.

Part 6. Computation of Credit for Interactive Digital Media. *(The information requested for Part 6, Lines 12 through 20, is the cumulative total of all qualified interactive digital media expenses during tax year 2011 and will be the same on all NC-478Is filed.)*

Line 12. Enter the total amount of all qualified interactive digital media expenses.

Line 13. The expense threshold for interactive digital media is \$50,000.

Line 14. Subtract Line 13 from Line 12. This is the excess of qualified interactive digital media expenses over applicable threshold.

Line 15. Enter the amount of expenses from Line 14 that were paid to a participating community college or research university.

Line 16. Multiply Line 15 by 20.0%. This is the credit amount for qualified interactive digital media expenses paid to a participating community college or research university.

Line 17. Subtract Line 15 from Line 14. This is the total amount of other qualified interactive digital media expenses.

Line 18. Multiply Line 17 by 15.0%. This is the credit amount for other qualified interactive digital media expenses.

Line 19. The maximum credit for interactive digital media is \$7,500,000.

Line 20. Enter the lesser of Line 16 plus Line 18 or Line 19. **This is the total credit for interactive digital media in 2011.**

Part 7. Computation of Credit To Be Taken in 2011. *(The information requested for Part 7, Lines 21 through 24, is the cumulative total of all qualified research expenses and interactive digital media expenses during tax year 2011 and will be the same on all NC-478Is filed.)*

Line 21. Enter the credit for North Carolina research and development.

Line 22. Enter the portion of credit not taken for tax years 2005 through 2010.

Line 23. Add Lines 21 and 22. **This is the amount of credit to take in 2011 for Research and Development.** *(Carry amount to Line 3b of NC-478)*

Line 24. Enter amount from Part 6, Line 20. **This is the amount of credit to take in 2011 for interactive digital media.**

Pass-through Entities. *S corporations claiming the credit against income tax* complete Parts 1 through 6 as one taxpayer, then allocate the amount from Part 2, Line 2, Part 3, Line 4, Part 4, Line 6, the sum of Part 5, Lines 9 and 11, or Part 6, Line 20 among the shareholders. Complete Part 7 by including the amounts allocated to those nonresident shareholders on whose behalf a composite return is being filed. **Partnerships** complete Parts 1 through 6 as one taxpayer, then allocate the amount from Part 2, Line 2, Part 3, Line 4, Part 4, Line 6, the sum of Part 5, Lines 9 and 11, or Part 6, Line 20 among the partners. Complete Part 7 by including the amounts allocated to those nonresident partners on whose behalf the managing partner pays the tax. **Trusts and estates** complete Parts 1 through 6 as one taxpayer, then allocate the amount from Part 2, Line 2, Part 3, Line 4, Part 4, Line 6, the sum of Part 5, Lines 9 and 11, or Part 6, Line 20 among the fiduciary and the beneficiaries. Complete Part 7 by including only the amount allocated to the fiduciary.