

RESEARCH & DEVELOPMENT TAX CREDIT

The R&D tax credit is a flat 10% of the additional R&D expense over a base amount. The base [detailed below] is computed from the previous three years' taxable income and research expenses.



Example: Taxpayer has base of \$192,000. Current year's R&D expense is \$5,192,000. Taxpayer is eligible to receive an income tax credit of \$500,000 to reduce or eliminate Georgia income tax liability: $[\$5,192,000 - \$192,000] \times 10\% = \$500,000$.

R&D tax credits are **available** to a business engaged in one of the categories to which the jobs tax credit is available (manufacturing, telecommunications, etc. Taxpayer must have positive net income for the previous three years. Taxpayer must qualify for a research credit under Section 41 of the 1986 IRS code to be eligible for the Georgia credit.

R&D tax credits can be **used** against 50% of the remaining income tax liability after all other credits have been applied in a given year. Unused R&D tax credits may be carried forward 10 years. These credits can be added to other tax credits.

The R&D **base** is the taxpayer's Georgia taxable net income in the current year multiplied by either (a) the average of the ratios of its qualified research expense to taxable net income for the preceding three taxable years, or (b) 30%, whichever is less.

Example: Taxpayer spends \$100,000 on R&D in a given year and has net taxable income of \$1 million. The ratio of R&D to taxable income is 10%. Taxpayer's expense to income ratios for the three preceding taxable years are: 10%, 9%, and 5% respectively. Average of the three ratios is 8%. If current year's income is \$2,400,000, the base is $8\% \times \$2,400,000 = \$192,000$.

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