



2016 Schedule 1299-D (R&D) Instructions

What's new for 2016?

Public Act 100-0022 has retroactively restored the Research and Development Credit for tax years ending after December 31, 2015. Originally, the credit had sunset for these tax years and had therefore been removed from the original release of the 2016 Illinois Income Tax forms.

This supplemental schedule has been designed to allow you to claim the Research and Development Credit for the 2016 tax year, if applicable. See the Specific Instructions for more information.

In addition, if you did not claim the Research and Development Credit on your 2015 return because your tax year ended after December 31, 2015, you may amend that return and the 2015 Schedule 1299-D to claim the credit, if applicable.

General Information

Complete this schedule if you are filing Form IL-1120, Corporation Income and Replacement Tax Return, Form IL-1041, Fiduciary Income and Replacement Tax Return, or Form IL-990-T, Exempt Organization Income and Replacement Tax Return, and are entitled to the Research and Development Credit for the 2016 tax year.

If you are filing an Illinois combined unitary return, complete one Illinois Schedule 1299-D (R&D) for the entire unitary business group.

What must I attach?



Schedule K-1-P (R&D), Partner's or Shareholder's Share of 2016 Research and Development Credit Supplemental Schedule, if

- you are a partner in a partnership or a shareholder in an S corporation, and you received a Schedule K-1-P (R&D) from the partnership or S corporation showing an amount of credit that you may claim on your Schedule 1299-D (R&D). In order to claim amounts reported to you on an Illinois Schedule K-1-P (R&D) the tax year ending listed on the Illinois Schedule K-1-P (R&D) you received must fall within your tax year.



Definitions for completing Schedule 1299-D (R&D)

“Qualifying expenses” are expenditures qualifying under IRC Section 41 that are attributable to research in Illinois, including certain payments to qualified organizations for basic research in Illinois.

“Qualifying expenses for increasing research activities in Illinois” are the excess of qualifying expenses incurred for the current tax year over qualifying expenses incurred for the base period.

“Base period” is the **three** tax periods immediately preceding the current year.

“Qualified research” is research or experimental activities that create or improve a function, performance, reliability, or quality. Research must be performed in Illinois and be of a technical nature and be intended to be useful in the development of a new or improved business component held for sale, lease, license, or use by you in your business.

Specific Instructions

Research and Development Credit

You may take this credit if you have certain qualifying expenses for increasing qualified research activities in Illinois.

You may not take this credit 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 Illinois;
- research in the social sciences, arts, or humanities; or
- research funded by another person (or government entity).

Lines 1 through 4 – Follow the instructions on the form for the amount to enter in Column A and Column B.

Column A – Enter the average of the base period qualified expenses resulting from activities that were conducted in the **State of Illinois**.

Column B – Enter the current year qualified expenses resulting from activities that were conducted in the **State of Illinois**.

If you were **not** doing business in Illinois during one or more of the tax years included in the base period, use “0” as the factor for that tax year when computing the average base period qualified expenses.

Note If you were doing business in Illinois for less than an entire year during any tax year in the base period, the qualifying expenses (Lines 1 through 4) must be annualized as follows:

$$\text{qualified expenses} \times 365 \div \text{number of days taxable by Illinois}$$

Line 5 – Corporations only: Enter the total amount of research payments made to qualified organizations following the directions for Columns A and B.

Line 6 and 7 – Follow the instructions on the form.

Line 8 – Multiply Line 7 by 6.5 percent (.065), and enter the result on Line 8.

Line 9 – Follow the instructions on the form.

Line 10 – Add the amounts on Lines 8 and 9, and enter the result. This is your Research and Development Credit.

In order to claim a Research and Development Credit on your 2016 return, you must include the amount on Line 10 from this Schedule 1299-D (R&D) in the total amount you report on your 2016 Schedule 1299-D, Step 1, Section B, Line 61. You must also attach this Schedule 1299-D (R&D) directly behind your 2016 Schedule 1299-D.

Note If you file electronically through the Modernized e-File (MeF) system, email your 2016 Schedule 1299-D (R&D), and K-1-P (R&D), if applicable, to Rev.BitSupplemental@illinois.gov.

In order to calculate your income tax credit and carryforward amounts correctly, you must include the amount from Line 10 of this Schedule 1299-D (R&D) on Schedule 1299-D, Line 61, regardless if you report any other credits on Schedule 1299-D. See the examples on the back of these instructions for further guidance.

Example 1: You claim both a \$100 Research and Development Credit on Schedule 1299-D (R&D) and a \$500 Hospital Credit on Schedule 1299-D. You will report a total five-year credit amount on Schedule 1299-D, Line 61, of \$600. Complete the rest of Schedule 1299-D. Attach **both** Schedule 1299-D and Schedule 1299-D (R&D) to your return.

Example 2: You claim only a \$100 Research and Development Credit on Schedule 1299-D (R&D). You did not claim any other five-year credits on Schedule 1299-D. You will report a total five-year credit amount on Schedule 1299-D, Line 61, of \$100. Complete the rest of Schedule 1299-D. Attach **both** Schedule 1299-D and Schedule 1299-D (R&D) to your return.

Failure to follow these instructions may delay the processing of your return, result in the disallowance of your Research and Development Credit, or result in you receiving further correspondence from the Department. You may also be required to submit further information to support your filing.