

# Instructions for 2012 Schedules R, R-1, and R-2

## General Instructions

### Purpose of Schedules R, R-1, and R-2

A corporation, other than a tax-option (S) corporation, uses Schedules R, R-1, and R-2 to compute and claim the credits for (1) increasing research activities in Wisconsin, and (2) constructing and equipping new facilities or expanding existing facilities used for qualified research in Wisconsin. See “**Special Instructions for Combined Group Members**,” page (2) of these instructions for special rules that apply to combined group members.

The appropriate schedule depends on the type of product to which the research activities relate:

- Use **Schedule R-1** for qualified research related to designing internal combustion engines and vehicles, including vehicles that are powered by such engines and improving production processes for such engines and vehicles.
- Use **Schedule R-2** for qualified research related to the design and manufacturing of energy efficient lighting systems, building automation and control systems, or automotive batteries for use in hybrid-electric vehicles that reduce the demand for natural gas or electricity or improve the efficiency of its use.
- Use **Schedule R** for all other types of qualified research.

The corporation must attach Schedule R, R-1, or R-2 to its Wisconsin income or franchise tax return.

### Who Is Not Eligible

Partnerships, limited liability companies (LLCs) treated as partnerships, tax-option (S) corporations, and individuals, including individual partners, members, and shareholders, cannot claim research credits.

### Internal Revenue Code

For purposes of computing the Wisconsin research credits, “Internal Revenue Code” means the federal Internal Revenue Code (IRC) as amended to December 31, 2010, with certain exceptions that are explained in the Form 4 or Form 5 instructions.

Relating to the Wisconsin research credits, exceptions to the IRC include:

- Section 41(h), relating to the termination of the federal credit, does not apply for Wisconsin purposes.
- Section 41(f), which provides special rules for the computation of the credit.
- The increased percentages for the federal alternative incremental research credit enacted by P.L. 109-432, Tax Relief and Health Care Act of 2006, were not adopted for Wisconsin purposes.
- The changes to the federal research credit relating to energy research and energy research consortia, made by Public Law 109-58, Energy Tax Incentives Act of 2005, were not adopted for Wisconsin purposes.

### What Are Qualified Research Expenses

“Qualified research expenses” are defined in Internal Revenue Code section 41(b). They are the sum of in-house research expenses and 65% of contract research expenses (75% for payments made to qualified research consortia). See IRC section 41 as amended to December 31, 2010, for further details.

### What Is Qualified Research

“Qualified research” is defined in IRC section 41(d). It means research for which expenditures may be treated as expenses under IRC section 174. This research must be undertaken for discovering information that is technological in nature, and its application must be intended for use in developing a new or improved business component of the taxpayer. In addition, substantially all of the activities of the research must be elements of a process of experimentation relating to a new or improved function, performance, reliability, or quality. See IRC sections 41 and 174 for a complete definition and special rules.

### What Are Qualified Research Facility Expenditures

“Qualified research facility expenditures” are amounts paid or incurred during the taxable year to construct and equip new facilities or to expand existing facilities used in Wisconsin for qualified research. Eligible amounts include amounts paid or incurred for tangible, depreciable property, but do not include amounts paid or incurred for replacement property. See the tax release in [Wisconsin Tax Bulletin 68](#), page 30, for more information.

## Expenses Must Be Incurred in Wisconsin

Expenses incurred entirely outside Wisconsin may not be allocated to Wisconsin even if incurred for the benefit of research in Wisconsin. If qualified research expenses are incurred in and outside Wisconsin and the amount incurred in Wisconsin cannot be accurately determined, a portion of the qualified expenses may be reasonably allocated to Wisconsin.

## Credits Are Income

The credits that you compute on Schedules R, R-1, and R-2 are income and must be reported on your Wisconsin franchise or income tax return in the year computed. This is true even if you cannot use the full amount of a credit computed this year to offset tax liability for this year and must carry part or all of it forward to future years.

## Carryover of Unused Credits

The research credits are nonrefundable. Any unused credit may be carried forward for 15 years, except for the super research and development credit, which may only be carried forward for 5 years. If there is a reorganization of a corporation claiming a research credit, the limitations provided by IRC section 383 may apply to the carryover of any unused Wisconsin research credit.

## Adjustments for Certain Acquisitions and Dispositions

If a major portion of a trade or business is acquired or disposed of, adjustments must be made to qualified research expenses and gross receipts for the period before or after the acquisition or disposition. See IRC section 41(f)(3) for details.

## Short Taxable Year

For any short taxable year, qualified research expenses or expenditures and gross receipts must be annualized.

## Special Instructions for Combined Group Members

In general, credits are attributes of the separate corporation rather than attributes of the combined group. Nonetheless, s. 71.255(6)(c), Wis. Stats., allows for the sharing of certain research credits. A corporation is not required to share its research credits. Special rules apply to combined group members sharing their respective research credits. Additional information can be found on the [instructions to Form 4CS](#), *Sharing of Re-*

*search Credits for Combined Group Members*, and s. [Tax 2.61\(10\)\(c\) and \(d\)](#), Wisconsin Administrative Code.

Important features of these special rules include:

- Combined group members compute their respective research credit amounts based on their own “qualified research expenses”;
- For combined group members, “qualified research expenses” is modified so that research funded by a combined group member and performed by a different combined group member still qualifies as “qualified research.”
- Combined group members use their own respective gross receipts for the based period computation as if the members themselves filed on a separate entity basis.
- Only the “sharable credits” may be shared. Generally, a corporation may only share its research credits with the combined group if it was a member of that same combined group in the year the credit originated. However, if the credit originated before January 1, 2009, the corporation may share the credit if it would have been in that same combined group had Wisconsin law required combined reporting in the year the credit originated.

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## Specific Instructions for Schedule R

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### Part I – Credit for Increasing Research Expenses

**Line 1.** Enter wages you pay to employees for actually doing research work, or for directly supervising or directly supporting research work, in Wisconsin. Generally, “wages” means the amount reported on the employee’s wage statement, Form W-2. Include qualified wages that were used in computing the federal work opportunity tax credit.

**Line 2.** Enter the cost of supplies used in the conduct of qualified research in Wisconsin. “Supplies” are tangible property other than land, improvements to land, or depreciable property whether or not you take a depreciation deduction for it.

**Line 3.** Enter the amount paid for the rental or lease of computers used in qualified research in Wisconsin. Reduce this amount by the amount that you received for the right to use substantially identical property.

**Line 4.** Enter 65% of amounts paid under a contract for qualified research performed in Wisconsin by someone other than your employee. Prepaid contract research expenses are considered paid in the year the research is actually done.

Use 75% for payments made to a qualified research consortium in Wisconsin. A qualified research consortium is a tax-exempt organization described in IRC section 501(c)(3) or (6) that is organized and operated primarily to conduct scientific research and is not a private foundation.

**Line 5.** Enter any expenses used in computing the federal orphan drug credit that are Wisconsin qualified research expenses.

**Line 7.** Enter the amount of any wages included on line 6 that qualify for the Wisconsin development zones jobs credit. These wages may not be used in determining the Wisconsin research credit.

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## Section A – Regular Credit

Complete this section **only** if you are claiming the regular credit. You may change your election **once** for a single taxable year without receiving department approval.

If you are eligible for the research credits computed on Schedules R-1 or R-2 for your other research activities, you may change your election once for each schedule.

**Line 9.** Complete lines 1 through 5 of the worksheet on page 2 of Schedule R and enter the average annual Wisconsin gross receipts from line 5 on Schedule R, line 9.

*On line 1* of the worksheet, enter the gross receipts for the 4 taxable years preceding the current taxable year. Reduce gross receipts for any taxable year by returns and allowances.

*On line 2* of the worksheet, enter the portion of the total gross receipts included on line 1 that are not attributable to Wisconsin.

For purposes of the research credit, sales of tangible personal property are allocated or sourced to Wisconsin if (1) the property is delivered or shipped to a purchaser, other than the federal government, within Wisconsin, or (2) the property is shipped from an office,

store, warehouse, factory, or other place of storage in Wisconsin and delivered to the federal government within Wisconsin. “Throwback” sales are not treated as sales allocated or sourced to Wisconsin. Gross receipts from the use of computer software are sourced to Wisconsin if the purchaser or licensee uses the software at a location in Wisconsin. Gross receipts from services are Wisconsin sales if the purchaser receives the benefit of the service in Wisconsin. Royalties and other gross receipts from the use or license of intangible property and sales of intangible property (excluding securities) must be sourced to Wisconsin (1) if the purchaser or licensee used the intangible property in WI, (2) the purchaser’s or licensee’s billing address is in WI, or (3) the purchaser’s or licensee’s commercial domicile is in Wisconsin.

**Line 10.** Compute the Wisconsin fixed-base percentage as follows:

**Existing companies** (any company that isn’t a start-up company) must complete lines 6 through 19 of the worksheet on page 2 of Schedule R and enter the Wisconsin fixed-base percentage from line 19 on Schedule R, line 10. The Wisconsin fixed-base percentage is the ratio of the total qualified research expenses incurred in Wisconsin for at least 3 taxable years from 1984 to 1988 to the total gross receipts for those taxable years. **Note:** The maximum percentage that may be entered on line 10 is 16%.

**Start-up companies** having **both** gross receipts and qualified research expenses either (1) for the first time in a taxable year beginning after 1983, or (2) for fewer than 3 taxable years beginning after December 31, 1983, and before January 1, 1989, must enter 3% on line 10. **Note:** The fixed-base percentage for start-up companies is modified beginning with their 6th taxable year beginning after December 31, 1993. See IRC section 41(c) for details.

**Caution:** If you are eligible to claim the research credits on Schedules R-1 or R-2, you may not include qualified research expenses includable in the fixed-base percentage for those credits in the fixed-base percentage for the Schedule R credit.

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## Section B – Alternative Incremental Credit

Complete this section **only** if you are electing the alternative incremental credit instead of the regular credit.

The election is made by filling in Section B and attaching Schedule R to your timely filed tax return. You may make different elections for federal and Wisconsin purposes. Once made, the election applies to the current taxable year and all later taxable years, unless you receive the Department of Revenue's consent to revoke the election. You may change your election **once** for a single taxable year without receiving Department approval. For more information, see the tax release in [Wisconsin Tax Bulletin 137](#), page 31.

**Line 16.** See the instructions for Schedule R, line 9.

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## Part II – Credit for Research Facilities

**Line 31.** Enter the qualified research facility expenditures, as defined earlier. The expenditures in Part II do not include any expenses that are includable as qualified research expenses in Part I.

## Part III—Super Research and Development Credit

**Line 35.** Enter the Wisconsin qualified research expenses from the 2011 taxable year.

**Line 36.** Enter the Wisconsin qualified research expenses from the 2010 taxable year.

**Line 37.** Enter the Wisconsin qualified research expenses from the 2009 taxable year.

**Line 41.** Enter the Wisconsin qualified research expenses for the current taxable year.

**Line 42.** If line 41 is larger than line 40, subtract line 40 from line 41. This is the super research and development credit for the current taxable year. If line 40 is larger than line 41, you do not qualify for the super research and development credit and should enter zero (0) on line 42.

**Line 43.** Enter the super research and development credit from prior taxable years that was not used to offset your tax liability in those years and has not expired under the five year carryforward limitation.

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## Specific Instructions for Schedule R-1

### Part I – Credit for Increasing Research Expenses

**Line 1.** Enter wages you pay to employees for actually doing research work, or for directly supervising or directly supporting research work, in Wisconsin, if that research relates to designing internal combustion engines and vehicles, including vehicles that are powered by such engines and improving production processes for such engines and vehicles. Generally, "wages" means the amount reported on the employee's wage statement, Form W-2. Include qualified wages that were used in computing the federal work opportunity credit.

**Line 2.** Enter the cost of supplies used in the conduct of qualified research in Wisconsin, if that research relates to designing internal combustion engines and vehicles, including vehicles that are powered by such engines and improving production processes for such engines and vehicles. "Supplies" are tangible property other than land, improvements to land, or depreciable property whether or not you take a depreciation deduction for it.

**Line 3.** Enter the amount paid for the rental or lease of computers used in qualified research in Wisconsin, if that research relates to designing internal combustion engines and vehicles, including vehicles that are powered by such engines and improving production processes for such engines and vehicles. Reduce this amount by the amount that you received for the right to use substantially identical property.

**Line 4.** Enter 65% of amounts paid under a contract for qualified research performed in Wisconsin by someone other than your employee, if that research relates to designing internal combustion engines and vehicles, including vehicles that are powered by such engines and improving production processes for such engines and vehicles. Prepaid contract research expenses are considered paid in the year the research is actually done.

Use 75% for payments made to a qualified research consortium in Wisconsin. A qualified research consortium is a tax-exempt organization described in IRC section 501(c)(3) or (6) that is organized and operated primarily to conduct scientific research and is not a private foundation.

**Line 6.** Enter the amount of any wages included on line 5 that qualify for the Wisconsin development zones jobs credit. These wages may not be used in determining the Wisconsin research credit.

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## Section A – Regular Credit

Complete this section **only** if you are claiming the regular credit. You may change your election **once** for a single taxable year without receiving Department approval. If you are eligible for the research credits computed on Schedules R or R-2 for your other research activities, you may change your election once for each schedule.

**Line 8.** Complete lines 1 through 5 of the worksheet on page 2 of Schedule R-1 and enter the average annual Wisconsin gross receipts from line 5 on Schedule R-1, line 8.

*On line 1* of the worksheet, enter the gross receipts for the 4 taxable years preceding the current taxable year. Reduce gross receipts for any taxable year by returns and allowances.

*On line 2* of the worksheet, enter the portion of total gross receipts included on line 1 that are not attributable to Wisconsin. For purposes of the research credit, sales of tangible personal property are allocated to Wisconsin if (1) the property is delivered or shipped to a purchaser, other than the federal government, within Wisconsin, or (2) the property is shipped from an office, store, warehouse, factory or other place of storage in Wisconsin and delivered to the federal government within Wisconsin. "Throwback" sales are not treated as sales allocated to Wisconsin. Gross receipts from the use of computer software are allocated to Wisconsin if the purchaser or licensee uses the software at a location in Wisconsin. Gross receipts from services are Wisconsin sales if the purchaser receives the benefit of the service in Wisconsin. Royalties and other gross receipts from the use or license of intangible property and sales of intangible property (excluding securities) must be sourced to Wisconsin (1) if the purchaser or licensee used the intangible property in WI, (2) the purchaser's or licensee's billing address is in WI, or (3) the purchaser's or licensee's commercial domicile is in Wisconsin.

**Line 9.** Compute the Wisconsin fixed-base percentage as follows:

**Existing companies** (any company that isn't a start-up company) must complete lines 6 through 18 of the worksheet on page 2 of Schedule R-1. The amounts on lines 6 through 11 of the worksheet must include only qualified research expenses related to designing inter-

nal combustion engines and vehicles, including vehicles that are powered by such engines and improving production processes for such engines and vehicles.

The Wisconsin fixed-base percentage is the ratio of the total qualified research expenses incurred in Wisconsin for at least 3 taxable years from 1984 to 1988 to the total gross receipts for those taxable years. Enter the Wisconsin fixed-base percentage from line 18 on Schedule R-1, line 9. **Note:** The maximum percentage that may be entered on line 9 is 16%.

**Start-up companies** having **both** gross receipts and qualified research expenses related to designing internal combustion engines and vehicles, including vehicles that are powered by such engines and improving production processes for such engines and vehicles, either (1) for the first time in a taxable year beginning after 1983, or (2) for fewer than 3 taxable years beginning after December 31, 1983, and before January 1, 1989, must enter 3% on line 9. **Note:** The fixed-base percentage for start-up companies is modified beginning with their 6th taxable year beginning after December 31, 1993. See IRC section 41(c) for details.

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## Section B – Alternative Incremental Credit

Complete this section only if you are electing the alternative incremental credit instead of the regular credit. The election is made by filling in Section B and attaching Schedule R-1 to your timely filed tax return. You may make different elections for federal and Wisconsin purposes. Once made, the election applies to the current taxable year and all later taxable years, unless you receive the Department of Revenue's consent to revoke the election. However, you may change your election **once** for a single taxable year without receiving Department approval. If you are eligible for the research credits computed on Schedules R or R-2 for your other research activities, you may change your election once for each schedule.

**Line 15.** See the instructions for Schedule R-1, line 8.

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## Part II – Credit for Research Facilities

**Line 30.** Enter the qualified research facility expenditures, as defined on the first page, but only to the ex-

tent those expenditures are for facilities used for qualified research related to designing internal combustion engines and vehicles, including vehicles that are powered by such engines and improving production processes for such engines and vehicles.

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## Specific Instructions for Schedule R-2

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### Part I – Credit for Increasing Research Expenses

**Line 1.** Enter wages you pay to employees for actually doing research work, or for directly supervising or directly supporting research work, in Wisconsin, if that research relates to the design and manufacturing of energy efficient lighting systems, building automation and control systems, or automotive batteries for use in hybrid-electric vehicles, that reduce the demand for natural gas or electricity or improve the efficiency of its use. Generally, “wages” means the amount reported on the employee’s wage statement, Form W-2. Include qualified wages that were used in computing the federal work opportunity credit.

**Line 2.** Enter the cost of supplies used in the conduct of qualified research in Wisconsin, if that research relates to the design and manufacturing of energy efficient lighting systems, building automation and control systems, or automotive batteries for use in hybrid-electric vehicles that reduce the demand for natural gas or electricity or improve the efficiency of its use. “Supplies” are tangible property other than land, improvements to land, or depreciable property whether or not you take a depreciation deduction for it.

**Line 3.** Enter the amount paid for the rental or lease of computers used in qualified research in Wisconsin, if that research relates to the design and manufacturing of energy efficient lighting systems, building automation and control systems, or automotive batteries for use in hybrid-electric vehicles that reduce the demand for natural gas or electricity or improve the efficiency of its use. Reduce this amount by the amount that you received for the right to use substantially identical property.

**Line 4.** Enter 65% of amounts paid under a contract for qualified research performed in Wisconsin by someone other than your employee, if that research relates to the design and manufacturing of energy efficient lighting systems, building automation and control systems, or

automotive batteries for use in hybrid-electric vehicles, that reduce the demand for natural gas or electricity or improve the efficiency of its use. Prepaid contract research expenses are considered paid in the year the research is actually done.

Use 75% for payments made to a qualified research consortium in Wisconsin. A qualified research consortium is a tax-exempt organization described in IRC section 501(c)(3) or (6) that is organized and operated primarily to conduct scientific research and is not a private foundation.

**Line 6.** Enter the amount of any wages included on line 5 that qualify for the Wisconsin development zones jobs credit. These wages may not be used in determining the Wisconsin research credit.

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### Section A – Regular Credit

Complete this section **only** if you are claiming the regular credit. You may change your election once for a single taxable year without receiving Department approval. If you are eligible for the research credits computed on Schedules R or R-1 for your other research activities, you may change your election once for each schedule.

**Line 8.** Complete lines 1 through 5 of the worksheet on page 2 of Schedule R-2 and enter the average annual Wisconsin gross receipts from line 5 on Schedule R-2, line 8.

*On line 1* of the worksheet, enter the gross receipts for the 4 taxable years preceding the current taxable year. Reduce gross receipts for any taxable year by returns and allowances.

*On line 2* of the worksheet, enter the portion of total gross receipts included on line 1 that are not attributable to Wisconsin. For purposes of the research credit, sales of tangible personal property are allocated to Wisconsin if (1) the property is delivered or shipped to a purchaser, other than the federal government, within Wisconsin, or (2) the property is shipped from an office, store, warehouse, factory or other place of storage in Wisconsin and delivered to the federal government within Wisconsin. “Throwback” sales are not treated as sales allocated to Wisconsin. Gross receipts from the use of computer software are allocated to Wisconsin if

the purchaser or licensee uses the software at a location in Wisconsin. Gross receipts from services are Wisconsin sales if the purchaser receives the benefit of the service in Wisconsin. Royalties and other gross receipts from the use or license of intangible property and sales of intangible property (excluding securities) must be sourced to Wisconsin (1) if the purchaser or licensee used the intangible property in WI, (2) the purchaser's or licensee's billing address is in WI, or (3) the purchaser's or licensee's commercial domicile is in Wisconsin.

**Line 9.** Compute the Wisconsin fixed-base percentage as follows:

**Existing companies** (any company that isn't a start-up company) must complete lines 6 through 18 of the worksheet on page 2 of Schedule R-2. The amounts on lines 6 through 11 of the worksheet must include only qualified research expenses related to the design and manufacturing of energy efficient lighting systems, building automation and control systems, or automotive batteries for use in hybrid-electric vehicles that reduce the demand for natural gas or electricity or improve the efficiency of its use.

The Wisconsin fixed-base percentage is the ratio of the total qualified research expenses incurred in Wisconsin for at least 3 taxable years from 1984 to 1988 to the total gross receipts for those taxable years. Enter the Wisconsin fixed-base percentage from line 18 on Schedule R-2, line 9. **Note:** The maximum percentage that may be entered on line 9 is 16%.

**Start-up companies** having *both* gross receipts and qualified research expenses related to the design and manufacturing of energy efficient lighting systems, building automation and control systems, or automotive batteries for use in hybrid-electric vehicles, that reduce the demand for natural gas or electricity or improve the efficiency of its use, either (1) for the first time in a taxable year beginning after 1983, or (2) for fewer than 3 taxable years beginning after December 31, 1983, and before January 1, 1989, must enter 3% on line 9. **Note:** The fixed-base percentage for start-up companies is modified beginning with their 6th taxable year beginning after December 31, 1993. See IRC section 41(c) for details.

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### Section B – Alternative Incremental Credit

Complete this section only if you are electing the alternative incremental credit instead of the regular credit. The election is made by filling in Section B and attaching Schedule R-2 to your timely filed tax return. You may make different elections for federal and Wisconsin purposes. Once made, the election applies to the current taxable year and all later taxable years, unless you receive the Department of Revenue's consent to revoke the election. However, you may change your election **once** for a single taxable year without receiving Department approval. If you are eligible for the research credits computed on Schedules R or R-1 for your other research activities, you may change your election once for each schedule.

**Line 15.** See the instructions for Schedule R-2, line 8.

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### Part II – Credit for Research Facilities

**Line 30.** Enter the qualified research facility expenditures, as defined on the first page, but only to the extent those expenditures are for facilities used for qualified research related to the design and manufacturing of energy efficient lighting systems, building automation and control systems, or automotive batteries for use in hybrid-electric vehicles that reduce the demand for natural gas or electricity or improve the efficiency of its use.

## Additional Information and Assistance

**Web Resources.** The Department of Revenue has a web page dedicated to combined reporting issues, including:

- Common questions
- Training materials
- Links to Administrative Code sections that relate to combined reporting
- Articles on combined reporting

Access the combined reporting web page at: [revenue.wi.gov/comb rept/index.html](http://revenue.wi.gov/comb rept/index.html)

For questions that do not relate to combined reporting, the web page also has a library of frequently asked questions on general business tax topics, available at: [revenue.wi.gov/faqs/index.html](http://revenue.wi.gov/faqs/index.html)

**Contact Information.** If you cannot find the answer to your question in the resources available on the Department of Revenue's web page, contact the Department using any of the following methods:

- E-mail your question to [corp@revenue.wi.gov](mailto:corp@revenue.wi.gov)
- Call (608) 266-2772  
(Telephone help is also available using TTY equipment. Call the Wisconsin Telecommunications Relay System at 711 or, if no answer, (800) 947-3529. These numbers are to be used only when calling with TTY equipment.)
- Send a fax to (608) 267-0834
- Write to the Audit Bureau, Wisconsin Department of Revenue, Mail Stop 5-144, PO Box 8906, Madison, WI 53708-8906