



Mandatory Research Credit Claims IDR Questions

Please answer the following questions. All answers should be complete and specific to the question. Any reference to other documentation without a complete answer to the question will be considered an unsatisfactory response. All answers should refer to the taxable period ending * * * * * (insert no more than one tax year per IDR).

1. Have you retained a third party to assist you in preparing this claim? If the answer is yes, identify the third party and specify whether the fee to be paid by you to the third party is contingent upon the amount of the research credit ultimately allowed under the claim.

2. Did you make an I.R.C. §280C(c)(3) election on your original tax return? If yes, what was the amount of the research credit claimed?

3. Are you required by I.R.C. §41(f)(1) to aggregate your research expenditures with other members of the same controlled group or other trades or businesses which are under common control? If yes, identify the controlled group members and other trades or businesses which are under common control, and answer the following questions:

- a. Have the other members or trades or businesses been notified of your recomputation of the research credit and the effect that your credit allocation will have on their credit?
- b. Have the other members or trades or businesses filed claims that affect your allocated portion of the group credit? If yes, explain the effect on your allocated portion of the credit.
- c. Have the other members or trades or businesses had their research credits adjusted in any way by the IRS that affects your allocated portion of the group credit? If yes, explain the effect of the adjustment on your allocated portion of the credit.

4. In computing the group credit for the credit year, which includes computation of the base amount, have you accounted for all acquisitions and dispositions of members of the controlled group, or trades or businesses which are under common control, in accordance with the aggregation rules of I.R.C. §41(f)(1)? If no, explain why you have not accounted for all acquisitions and dispositions.

5. In computing the credit for the credit year, which includes computation of the base amount, have you accounted for all acquisitions or dispositions of a major portion of a trade or business or major portion of a separate unit of a trade or business, as required by I.R.C. §41(f)(3)(A) or §41(f)(3)(B)? If no, explain why you have not accounted for all acquisitions and dispositions.

6. Did you use project accounting to capture costs in your financial books and records? If yes, did you use this project accounting to identify and capture the additional qualified research expenses ("QREs")? If no to either or both questions, describe the method used to identify and capture the additional QREs and describe how this alternative method connects QREs with the financial books and records.

7. Please identify by dollar amounts where these additional QREs were deducted on your original return, i.e., cost of goods sold, capitalized as part of plant or equipment, overhead accounts or claimed and deducted as research expenses. What was your adopted method of treatment for R&E expenditures under I.R.C. §174? Did you report the additional expenditures in compliance with your adopted method of treatment? If not, please explain?

8. Do you have contemporaneous documentation that:

a. Identifies each new or improved business component for which the additional QREs are being claimed? If no, how have you identified each new or improved business component as defined in I.R.C. §41(d)(2)(B)?

b. Identifies qualified research by each new or improved business component? If no:

1) How did you identify that qualified research relates to development of a new or improved business component?

2) How did you determine that you satisfied the 80% process of experimentation requirement of I.R.C. §41(d)(1)(C)?

c. Identifies, by each new or improved business component, each employee whose wages are being claimed as QREs? If no, how have you identified the employees that are being claimed as having performed qualified services by each new or improved business component?

d. Tracks, by each new or improved business component, the time spent by each employee performing qualified services? If no, how have you determined the amount of employee qualified services that should be allocated to new or improved business component(s)?

e. Identifies the general ledger accounts which were used to quantify the QRE supplies?

f. Identifies the amount of QRE supplies consumed in the conduct of qualified research for each new or improved business component? If no, explain how you determined the amount of QRE supplies used in the conduct of qualified research.

g. Identifies claimed contract research expenses by contractor, QRE amount and each new or improved business component?

1) Have you retained copies of all the contracts for which contract research expenses have been claimed?

2) Do the terms of each contract for which contract research expenses have been claimed provide

a) for the performance of qualified research;

b) that payment(s) to the contractor(s) were required to be made even if the research was not successful; and

c) that you would retain substantial rights to the results of the research?

9. For any research you performed for which you were a contractor, do you have contemporaneous documentation that identifies your claimed research expenses by contract, QRE amount and each new or improved business component?

a. Have you retained copies of all the contracts for which such research expenses have been claimed?

b. Do the terms of each contract for which such research expenses have been claimed provide

1) for the performance of qualified research;

2) that payment(s) to you (the contractor) were contingent on success of the research; and

3) that you would retain substantial rights to the results of the research?

10. Does the amount of additional QREs include any expenditure for overhead expenses, general and administrative expenses, indirect research expenditures or depreciation allowances? If yes, provide the dollar amount(s) of additional QREs claimed for each type of expenditure.

11. Does the claim rely on any oral testimony or employee surveys to determine the additional QREs in the credit year? If yes,

- a. Provide the total dollar amount of additional QREs that were determined, in whole or in part, by oral testimony and employee surveys;
- b. Was the oral testimony or employee survey answers provided by individuals who directly conducted the claimed qualified research? If no, identify who provided the oral testimony or answered the survey;
- c. Provide the total dollar amount of qualified services performed only by the employees who were interviewed or answered the survey; and
- d. Identify the number of months that transpired between the claim year and the time the oral testimony or employee survey took place.

12. Does the claim rely on any oral testimony or employee surveys to determine QREs in the base years? If yes,

- a. Provide the total dollar amount of QREs in the base years that were determined, in whole or in part, by oral testimony or employee surveys;
- b. Was the oral testimony or employee survey answers provided by individuals who directly conducted the claimed qualified research? If no, identify who provided the oral testimony or answered the survey;
- c. Provide the total dollar amount of the qualified services performed only by the employees who were interviewed or answered the survey; and
- d. Identify the number of months that transpired between the base years and the time the oral testimony or employee survey took place.

13. Does the claim rely on estimates or extrapolations to determine any portion of the QREs in the credit year? If yes, describe the estimates or extrapolations methodologies employed and provide the dollar amount of the QREs, which was determined based upon an estimation or extrapolation technique.

14. Does the claim rely on estimates or extrapolations to determine any portion of the QREs in the base years? If yes, describe the estimates or extrapolations methodologies employed and provide the dollar amount of the QREs, by year, which was determined based upon an estimation or extrapolation technique.

15. Does the claim rely on estimates or extrapolations to determine any portion of the gross receipts used to compute the base amount? If yes, describe the estimates or extrapolations methodologies employed and provide the dollar amount of the gross receipts, by year, which was determined based upon an estimation or extrapolation technique.

16. Was any form of sampling used to determine your QREs? If yes,

- a. Did you use a valid statistical sample?
- b. Provide a detailed description of the sampling method used;
- c. Identify the population(s) to which each sampling method was applied;
- d. Identify the dollar amount of the QREs which was determined based upon each sampling method used.

17. Have you complied with the consistency requirement of I.R.C. §41(c)(6), which requires that the QREs used in determining the fixed-base percentage be determined on a basis consistent with the determination of the QREs for the credit year? If yes, state how you complied with the consistency requirement in determining the fixed-base percentage that was reported on your original (if applicable) and amended Form 6765.

18. Provide the name(s) and phone number(s) of the person(s) who completed this questionnaire.

NOTES:

1. Reference, above, to "additional" QREs refers only to the QREs in the claim that were not reported as QREs on the originally-filed tax return.

2. Reference, above, to the term “base years” refers to the years used to compute the fixed-base percentage.

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