

FYI – For Your Information

Research and Development Income Tax Credit for Enterprise Zones

Taxpayers who make expenditures on research and experimental activities in an enterprise zone qualify for an income tax credit. The 3 percent credit is based on the increase of a company's research and experimental expenditures within an enterprise zone over the average of such expenditures conducted in the same enterprise zone during the previous **two** income tax years. The expenditures must meet the research and experimental activities as defined in section 174 of the federal Internal Revenue Code of 1986, as amended. [§39-30-105.5, C.R.S.]

CRITERIA

Qualified research must satisfy three criteria:

- It must be technological in nature.
- It must be useful in the development of a new or improved product or component of the business.
- It must utilize the process of experimentation.

In-house research expenses may include:

- Wages, excluding fringe benefits.
- Supplies.
- Payments for the right to use computers.

Contract research expenses may include the amount paid for research done by a third party for the benefit of the contracting firm.

The following types of expenses **do not** qualify:

- Land or improvements to land.
- Depreciable equipment.
- Management surveys.
- Costs incurred to adapt a product to a particular customer's needs.
- Research funded by any government entity.

HOW TO CALCULATE THE CREDIT

The total amount of the calculated credit must be divided equally over four years. The taxpayer may claim 25 percent of the tax credit in the year the expenditure is made and 25 percent in each of the following three years.

The taxpayer must submit a certification from the enterprise zone administrator (DR 0077) showing that the business is located in an enterprise zone.

EXAMPLE: During 2005, the Smith Company spent \$325,000 for research in an enterprise zone. During 2003, the company spent \$100,000 in research in the same enterprise zone. During 2004, the company spent \$200,000 on research in the same enterprise zone. The company's 2005 research and experimental income tax credit is computed as follows:



Colorado Department
of Revenue
Taxpayer Service Division
1375 Sherman St.
Denver, Colorado 80261

Forms and other services:
(303) 238-FAST (3278)
Assistance:
(303) 238-SERV (7378)

www.taxcolorado.com

2005 enterprise zone research expenditures	\$325,000
2004 enterprise zone research expenditures	\$200,000
2003 enterprise zone research expenditures	\$100,000
Total 2003 and 2004	\$300,000
Average of 2003 and 2004	\$150,000
Qualifying expenditures (\$325,000 - \$150,000)	\$175,000
Allowable credit at 3 percent	\$5,250
Credit allowed in 2005 (25 percent of credit)	\$1,313
Credit allowed in 2006 (25 percent of credit)	\$1,313
Credit allowed in 2007 (25 percent of credit)	\$1,313
Credit allowed in 2008 (25 percent of credit)	\$1,313

If the Smith Company's 2006 research expenditures in the enterprise zone were the same or less than the average of the 2004 and 2005 expenditures, there would be no additional tax credit for 2006. However, if the company's 2006 research expenditures increased, the credit would be computed in this way:

2006 enterprise zone research expenditures	\$600,000
2005 enterprise zone research expenditures	\$325,000
2004 enterprise zone research expenditures	\$200,000
Total 2004 and 2005	\$525,000
Average of 2004 and 2005	\$262,500
Qualifying expenditures (\$600,000 - \$262,500)	\$337,500
Allowable credit at 3 percent	\$10,125
Credit allowed in 2006 (25 percent of credit)	\$2,531
Credit allowed in 2007 (25 percent of credit)	\$2,531
Credit allowed in 2008 (25 percent of credit)	\$2,531
Credit allowed in 2009 (25 percent of credit)	\$2,531

Since the Smith Company is still carrying the 2005 credit forward, the total 2006 credit would be calculated as follows:

2005 research expenditure credit	\$	1,313
2006 expenditure credit	+	\$ <u>2,531</u>
2006 total income tax credit	\$	3,844

If the taxpayer's tax liability is **less than** the research and experimental credit, the remaining amount may be carried forward to the subsequent tax years. There is no limit on the number of years this credit can be carried forward.

EXAMPLE: The Smith Company's 2006 tax liability is \$3,000. This is less than the company's total 2006 research credit of \$3,844. Therefore, the Smith Company may carry forward the \$844 to the 2007 tax return.

Common Questions:

How is the average research and experimental expenditures amount computed for the last two years when a company had no such expense in one or both of those years?

If there was no research and experimental expenditures in one or both of the previous two income tax years, then the average expenditure should be computed using zero for that year(s).

Does the federal limitation of 65% of contract research expenses apply to the enterprise zone research and development credit?

No. The Colorado statute refers only to section 174 of the federal code for determining qualified expenditures.

How is the credit computed if the taxpayer moves from one enterprise zone to another?

The credit is computed by comparing expenses in a particular enterprise zone as compared to expenses from the prior two years in the same zone. If the company moves to a different zone, then the computation of the credit starts over by comparing qualified expenses to the prior two years' expenses within the new enterprise zone.

Must third party research be performed within an enterprise zone?

Yes.

FURTHER INFORMATION

FYIs, commonly used forms and additional tax information are also available on the Web at www.taxcolorado.com

More information on Colorado Enterprise Zones is available through the Colorado Office of Economic Development, 1625 Broadway, Room 1700, Denver, CO 80202; (303) 892-3840; www.advancecolorado.com/enterprisezone

For additional Colorado tax information visit the "Tax Information Index" which covers a variety of topics including links to forms, publications, regulations, statutes and general questions and answers. The "Tax Information Index" is located at www.taxcolorado.com

FYIs provide general information concerning a variety of Colorado tax topics in simple and straightforward language. Although the FYIs represent a good faith effort to provide accurate and complete tax information, the information is not binding on the Colorado Department of Revenue, nor does it replace, alter or supersede Colorado law and regulations. The Executive Director, who by statute is the only person having authority to bind the Department, has not formally reviewed and/or approved these FYIs.

Certification of Qualified Enterprise Zone Research & Development Expenditures

This information regarding expenditures on research and development is a confidential tax document.

This form certifies that your facility is located within the boundaries of a Colorado Enterprise Zone, and collects information required by 39-30-103(4), C.R.S.

To claim the Colorado Enterprise Zone income tax benefits:

- Calculate your Colorado enterprise zone tax credit following the instructions on Form 112CR or FYI Income 22.
- Submit or mail this **completed** form (signed by an authorized company official or owner and dated) to the local Enterprise Zone Administrator for the zone where your facility is located for signature. **ENCLOSE A SELF-ADDRESSED STAMPED ENVELOPE.**
- **DO NOT SEND THIS FORM TO THE DEPARTMENT OF REVENUE OR DEPARTMENT OF LOCAL AFFAIRS FOR CERTIFICATION.**
- Attach a copy of the **CERTIFIED** form to your Colorado income tax return. (**Do not** send the form independently of your return).
- **Note to "S" Corporation and Partnership filers:** Please provide to all appropriate partners and shareholders a copy of the certificate along with a calculation of their proportionate share of any enterprise zone credit claimed.

TO BE COMPLETED BY AN AUTHORIZED COMPANY OFFICIAL/OWNER

INFORMATION IS FOR TAX YEAR ENDING _____, 200 _____		Check here if a certification has been filed for this facility in a prior year: <input type="checkbox"/>	
Enterprise Zone		Type of Bus. (retail, mfg, farm, etc)	
Business Name		SIC Code (See list attached to DR 0074)	
Address - Actual location of facility - (street, city, ZIP)		Business Telephone Number ()	
Research and development expenditures in zone during year			
\$		Amount of EZ research and development tax credit claimed	\$
TAXPAYER SIGNATURE			
I declare that all of the above information is true and correct to the best of my knowledge and belief.			
Signature of Authorized Company Official/Owner		Colorado I.D. Number or Social Security Number	
Print Name	Title	Date	
Tax Preparer or other contact for follow up information (please print)		Phone	
CERTIFICATION BY ZONE ADMINISTRATOR			
I, the duly authorized administrator of the above-mentioned Enterprise Zone, hereby certify to the State of Colorado Department of Revenue that the above named facility is entirely within the designated Enterprise Zone.			
Effective Date of Zone for this Location	Signature of Zone Administrator	Date	

FOR MORE INFORMATION ABOUT ENTERPRISE ZONES CONTACT THE AGENCIES LISTED BELOW:

- Colorado Department of Revenue, Denver, CO 80261-0005. Phone: (303) 238-SERV (7378). See Department of Revenue "FYI" Publications for additional information: www.TaxColorado.com
- Colorado Office of Economic Development, 1625 Broadway, Suite 2700, Denver, CO 80202. Phone: (303) 892-3840. www.advancecolorado.com

Colorado Enterprise Zones

Enterprise Zone Administrators

Adams County Enterprise Zone

Rita Carrington
Adams County Economic Development
12050 N. Pecos St., #200
Westminster, CO 80234
303-450-5106; FAX 303-252-8230
rcarrington@adamscountyped.com

Arapahoe County Enterprise Zone

Nancy Fenton
Community Development
City of Englewood
1000 Englewood Parkway
Englewood, CO 80110
303-762-2347; FAX 303-783-6895
nfenton@englewoodgov.org

Denver Enterprise Zone

Turid Nagel-Casebolt
Office of Economic Development
City & County of Denver
201 W Colfax, Dept 1005
Denver, CO 80202
720-913-1623; FAX 720-913-1639
Turid.Nagel-Casebolt@ci.denver.co.us

East Central Enterprise Zone

Cheyenne, Kit Carson, Lincoln, eastern
Elbert Counties
Maryjo Downey
East Central COG
P.O. Box 28
Stratton, CO 80836
719-348-5562; FAX 719-348-5887
jdowney@prairiedevelopment.com

El Paso County Enterprise Zone

DeAnne McCann
El Paso County—Financial Services
Department
27 E. Vermijo Ave., 5th Floor
Colorado Springs, CO 80903
719-520-6480; FAX 719-520-6486
deannemccann@elpasoco.com

Greeley/Weld County Enterprise Zone

Cathy Schulte
Upstate Colorado Economic Development
822 7th Street, #550
Greeley, CO 80631
970-356-4565; FAX 970-352-2436
cschulte@upstatecolorado.org

Jefferson County Enterprise Zone

Leigh Seeger
Jefferson Economic Council
1667 Cole Blvd., #400
Golden, CO 80401-3219
720-544-5505; FAX 303-202-2967
lseeger@jeffco.org

Larimer County Enterprise Zone

Lew Wymisner
Larimer County Workforce Center
200 W. Oak Street, #5000
P.O. Box 2367
Fort Collins, CO 80522-2367
970 498-6605; FAX: 970-498-6673
lwymisner@larimer.org

Mesa County Enterprise Zone

Christina Reddin
The Business Incubator Center
2591 B 3/4 Rd
Grand Junction, CO 81503
970-243-5242; FAX 970-241-0771
creddin@gjincubator.org

Northeast Enterprise Zone

(sub-zone of EC)
Logan, Morgan, Phillips, Sedgwick,
Washington, Yuma Counties
Larry Worth
NE Colorado Assoc. of Local
Governments
231 Main St., #211
Fort Morgan, CO 80701
970-867-9409; FAX 867-9053
lworth@necalg.com

Northwest Enterprise Zone

Clear Creek, Garfield, Grand, Jackson,
Moffat, Rio Blanco, Routt Counties
Aron Diaz
Associated Governments of Northwest
Colorado
P.O. Box 351
Rifle, CO 81650
970-625-1723; FAX 970-625-1147
jane.whitt@agnc.org

Pueblo County Enterprise Zone

Aimee Tihonovich
Pueblo County
215 W. 10th St., Rm 322
Pueblo, CO 81003
719-583-6541; FAX 719-583-6499
aimee.tihonovich@co.pueblo.co.us

Region 10 Enterprise Zone

Delta, Gunnison, Hinsdale, Montrose,
Ouray, San Miguel
Paul Gray
Region 10 LEAP
P.O. Drawer 849
Montrose, CO 81402
970-249-2436; FAX 970-249-2488
info@region10.net

San Luis Valley Enterprise Zone (sub-zone of UA/SLV)

Alamosa, Conejos, Costilla, Mineral,
Rio Grande, Saguache Counties
Michael Wisdom
San Luis Valley Developmental
Resources Group
P.O. Box 300/ 626 4th St
Alamosa, CO 81101
719-589-6099; FAX 719-589-6299
wisdom@slvdr.org

South Central Enterprise Zone

Huerfano, Las Animas Counties
Priscilla Fraser
South Central COG
300 S. Bonaventure Ave
Trinidad, CO 81082
719-845-1133; FAX 719-845-1130
pfraser@sccog.net

Otero County

Jean Hinkle
Otero County
P.O. Box 511
La Junta, CO 81050
719-383-3000; FAX 719-383-3090
jhinkle@otero.gov

Southeast Colorado Enterprise Zone

Baca, Bent, Crowley, Kiowa, Prowers
Counties
Dan Tate
Southeast Colo. Enterprise Development
112 W. Elm St./ P.O. Box 1600
Lamar, CO 81052
719-336-3850; FAX 719-336-3835
seced@seced.net

Southwest Enterprise Zone

Archuleta, Dolores, La Plata, Montezuma,
San Juan Counties
Laura Lewis
Region 9 Economic Development District
295A Girard St.
Durango, CO 81303
970-247-9621 FAX 970-247-9513
laura@scan.org

Upper Arkansas Enterprise Zone (sub-zone of UA/SLV)

Chaffee, Custer, Fremont, Lake Counties
Jeff Ollinger
Upper Arkansas Area COG
P.O. Box 1212
Buena Vista, CO 81211
719-395-2602; no faxes accepted
jeffolli@chaffee.net