

# Instructions for 2024 Schedule R

The Wisconsin research credit calculation is determined by Wisconsin statutes, not the Internal Revenue Code (IRC). However, Wisconsin defines which expenses are eligible to be used in the calculation of the credit by referencing sec. 41, IRC. According to sec. [71.28\(4\)\(ad\)4.b.](#), Wisconsin Statutes, “*qualified research expenses* means qualified research expenses as defined in section 41 of the Internal Revenue Code, except that *qualified research expenses* includes only expenses incurred by the claimant, incurred for research conducted in this state for the taxable year and does not include compensation used in computing the credit under sub. (1dx), the corporation's base amount. Section 41 (f) (1), (2), (5), and (6) and (h) of the IRC does not apply to the credit under this subdivision.”

Research expenses not used in the research credit calculation may reduce federal taxable income in accordance with sec. 162, 174 and 280(C), IRC, therefore the difference between the research expenses used to calculate the federal credit and those used to calculate the Wisconsin credit may create a Wisconsin modification.

Section 13206 of [P.L.115-97](#), the Tax Cuts and Jobs Act, enacted certain changes to the IRC applicable for tax years beginning after 2021 related to sections 41, 174 and 280(c). Wisconsin has not adopted section 13206 of P.L.115-97. Therefore, the pre-2022 rules remain in effect for Wisconsin purposes.

## Purpose of Schedule R

Estates and trusts, partnerships, and tax-option (S) corporations use Schedule R to report the distribution of the computed credit. Individuals, C-corporations, and tax exempt entities use Schedule R to report and claim the credits for increasing research activities in Wisconsin.

See “**Special Instructions for Combined Group Members,**” page (2) of these instructions for special rules that apply to combined group members of a corporation.

For more details on the research credit, see Publication 131 – *Tax Incentives for Conducting Qualified Research in Wisconsin*, available at: [revenue.wi.gov/Pages/HTML/taxpubs.aspx#business](http://revenue.wi.gov/Pages/HTML/taxpubs.aspx#business)

**Only include one type of research credit on a Schedule R.** If more than one research credit is being claimed, use additional Schedules R. For example, to claim the credit for increasing research expenses and the credit for activities related to internal combustion engines, complete a separate Schedule R to compute the credit for increasing research expenses and another Schedule R to compute the credit related to internal combustion engines.

The Schedule(s) R must be included with the Wisconsin income or franchise tax return filed by both the pass-through entity distributing the credit and the entity owner claiming the credit.

## Who Is Not Eligible

Partnerships, limited liability companies (LLCs) treated as partnerships, and tax-option (S) corporations cannot claim research credits to be used to offset tax liability; however, the computation of, and eligibility for, the research credits are based on the research activities conducted by those entities. The credits computed at the entity level flow through to the partners, members, or shareholders based on their ownership interests and are claimed on their respective tax returns.

## 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, 2022, with certain exceptions that are explained in the Form 1, 1NPR, 2, 3, 4, 4T, 5S, or 6 instructions. Relating to the Wisconsin research credits, exceptions to the IRC include:

- Section 41(b)(3)(D)(i) which replaces the 65% in the general definition of contract research expenses with 100% for payments to Eligible Small Businesses, Universities, and Federal Laboratories.
- Section 41(f)(1), which provides special rules for the aggregation of expenditures for a controlled group of taxpayers filing a federal consolidated return.

- Section 41(f)(2), which provides for special allocations in the case of estates, trusts, and partnerships
- Section 41(f)(5), relating to the definition of a controlled group of corporations
- Section 41(f)(6), regarding an energy research consortium
- The changes to the federal research credit relating to energy research and energy research consortium were not adopted for Wisconsin purposes.

• **Note:** Section 13206 of P.L. 115-97, the federal Tax Cuts and Jobs Act, enacted certain changes to secs. 41, 174 and 280C, IRC, applicable for taxable years beginning after 2021 related to research expenditures. Wisconsin has not adopted sec. 13206 of P.L. 115-97; therefore, the pre-2022 federal provisions apply for Wisconsin purposes.

### What Are Qualified Research Expenses

“Qualified research expenses” is defined in sec. 41(b), IRC to include the sum of in-house research expenses and the applicable percentage of contract research expenses. The applicable percentages are generally equal to

- 65% of the amount paid by the taxpayer to any person who is not an employee of the taxpayer for qualified research
- 75% of the amount paid by the taxpayer to a qualified research consortium for qualified research on behalf of the taxpayer and one or more unrelated taxpayers

See sec. 41, IRC, as amended to December 31, 2022, or Publication 131 – *Tax Incentives for Conducting Qualified Research in Wisconsin*, available at: [revenue.wi.gov/Pages/HTML/taxpubs.aspx#business](https://revenue.wi.gov/Pages/HTML/taxpubs.aspx#business) for further details.

### What Is Qualified Research

“Qualified research” is defined in sec. 41(d), IRC. It means research for which expenditures may be treated as expenses under sec. 174, IRC. 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 secs. 41 and 174, IRC, for a complete definition and special rules.

### Expenses Must Be Incurred in Wisconsin

Expenses incurred entirely outside Wisconsin cannot 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 credit computed on Schedule(s) R is income and must be reported on the Wisconsin franchise or income tax return in the year computed. This is true even if the full amount of a credit computed is not used to offset tax liability for this year and all or part of it is carried forward to future years.

### Carryover of Unused Credits

Up to 25% of the research credit is refundable. Any unused research credit that is not refundable may be carried forward for 15 years. If there is a reorganization of a corporation claiming a research credit, the limitations provided by sec. 383, IRC, may apply to the carryover of any unused Wisconsin research credit.

### Adjustments for Certain Acquisitions, Dispositions and Short Taxable Years

If a major portion of a trade or business is acquired or disposed of, adjustments must be made to qualified research expenses for the period before or after the acquisition or disposition.

For any short taxable year, qualified research expenses or expenditures must be annualized. See sec. 41(f)(3), IRC, for details.

## Special Instructions for Combined Group Members

In general, credits are attributes of the separate corporation rather than attributes of the combined group. Nonetheless, sec. 71.255(6)(c), Wis. Stats., allows for the sharing of certain nonrefundable research credits. A corporation is not required to share its nonrefundable research credits. Special rules apply to combined group members sharing their respective nonrefundable research credits. Additional information can be found in the [instructions to Form 6CS](#), *Wisconsin Sharing of Research Credits*, and sec. [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 another combined group member and performed by a different combined group member, is considered qualified research expenses of the combined group member performing the research, and the reimbursement from the combined group member funding the research may not be considered a qualified research expense of the funding member.
- Combined group members use their own respective qualified research expenses for the average of the prior three years qualified research expense 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 nonrefundable 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.

## Specific Instructions for Schedule R

**Line 1.** Enter wages paid 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, federal 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 a depreciation deduction is taken.

**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 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 an employee. Enter 75% of the 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.

Prepaid contract research expenses are considered paid in the year the research is actually done.

**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.

**Line 9.** On lines 9a through 9c, enter the qualified research expenses for the years indicated. For years with no qualified research expenses in one or more of the three prior years, check the box on line 9, do not complete lines 9a through 9e, and enter 0 on line 10.

For example, qualified research expenses were incurred in 2023 and 2022, but not 2021, do not average the prior year’s research expenses. Use the credit percentage from line 13a, 13b, or 13c.

**Line 12.** Check the appropriate box to indicate which research credit is being computed. However, if the box on line 9 is

checked because one or more of the prior three years had no qualified research expenses, skip line 12 and check the appropriate box on line 13 instead.

**Do not check more than one box on line 12. Complete a separate Schedule R for each credit.**

**Line 13.** If you checked the box on line 9 because you did not have qualified research expenses in one or more of the three prior years, check the box to indicate which credit you are computing.

**Do not check more than one box on line 13. If more than one research credit is being computed, complete a separate Schedule R for each credit.**

**Line 15.** Fill in the amount of research credit passed through from tax-option (S) corporations, partnerships, LLCs treated as partnerships, estates, or trusts. The pass-through credit is shown on Schedule 5K-1 for shareholders of tax-option (S) corporations, Schedule 3K-1 for partners and LLC members, and Schedule 2K-1 for beneficiaries of estates or trusts. Fill in the name, federal employer identification number (FEIN), and amount of credit passed through from the entity. If credits are allocated from more than two pass-through entities, attach a schedule showing each entity's name, FEIN, and amount of the credit. Fill in the total pass-through credit from the addition schedule on line 15c and attach the schedule to Schedule R.

**Line 16.** Total research credits.

**Line 16a. *Fiduciaries*** – Prorate the credits from line 16 between the entity and its beneficiaries in proportion to the income allocable to each. Show the beneficiaries' portion of the credit on line 16a. Show the credit for each beneficiary on Schedule 2K-1.

**Line 16b.** Subtract line 16a from line 16. This is the estates or trust's portion of the credit.

**Line 17.** This line computes the maximum refundable portion of research credit. Multiply line 16 by 25% (.25). Fiduciaries should multiply line 16b by 25% (.25).

For additional information on the refundable portion of the research credit, see the common questions:

[revenue.wi.gov/Pages/FAQS/research-credit-cq.aspx](https://revenue.wi.gov/Pages/FAQS/research-credit-cq.aspx)

**Line 18.** Enter the amount of credit from line 16 (line 16b for fiduciaries) used to offset tax on the current year's income or franchise tax return.

**Line 20.** Refundable portion of research credit. Enter the lesser of line 17 or 19. Enter the amount from line 20 on line 39 of Schedule CR. See the following exceptions:

- If the claimant is a combined group member, enter the refundable amount of credit on Form 6, Part III, line 13 instead of Schedule CR.
- Tax-option (S) corporations, partnerships, and LLCs treated as partnerships should prorate the amount of credit among the shareholders, partners, or members based on their ownership interest. Show the credit for each shareholder on Schedule 5K-1 and for each partner or member on Schedule 3K-1.

For additional information on the refundable portion of the research credit, see the common questions:

[revenue.wi.gov/Pages/FAQS/research-credit-cq.aspx](https://revenue.wi.gov/Pages/FAQS/research-credit-cq.aspx)

**Line 22.** Enter the research credit from prior taxable years not used to offset your tax liability in those years and has not expired under the 15-year carryforward limitation. **Include Schedule CF with your return.**

**Line 23.** Add lines 18, 21, and 22. This is the total nonrefundable portion of the research credit. Enter the amount of credit from line 23 on line 17 of Schedule CR. See the following exceptions:

- If the claimant is a combined group member, enter the nonrefundable amount of credit on Form 6, Part V, line 1 instead of Schedule CR.

- Tax-option (S) corporations, partnerships, and LLCs treated as partnerships should prorate the amount of credit among the shareholders, partners, or members based on their ownership interest. Show the credit for each shareholder on Schedule 5K-1 and for each partner or member on Schedule 3K-1.

## Additional Information and Assistance

### *Web Resources*

The Department of Revenue's web page, available at [revenue.wi.gov](https://revenue.wi.gov), has a number of resources to provide additional information and assistance, including:

- [Refundable portion of research credit common questions](#)
- Related [forms](#) and their instructions
- [Common Questions](#)
- [Publications](#) on specific tax topics
- The [Wisconsin Tax Bulletin](#)
- A home page specifically for [combined reporting topics](#)
- Links to the [Wisconsin Statutes and Administrative Code](#)

**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: [DORFranchise@wisconsin.gov](mailto:DORFranchise@wisconsin.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

**Applicable Laws and Rules**

This document provides statements or interpretations of the following laws and regulations enacted as of the revised date : Chapter 71 Wis. Stats., and Chapter Tax 2, Wis. Adm. Code