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**Par. 3.** Section 1.41–6 is amended as follows:

- 1. Paragraph (a)(1) is revised.
- 2. Paragraph (a)(4) is revised.
- 3. Paragraph (b) is revised.
- 4. Paragraphs (c), (d), and (e) are redesignated as paragraph (f), (g), and (h), respectively.
- 5. New paragraphs (c), (d), and (e) are added.

6. Newly designated paragraph (f)(1) is revised.

7. New paragraph (i) is added.  
The revisions and additions read as follows:

**§ 1.41–6 Aggregation of expenditures.**

(a) \* \* \* (1) *In general.* To determine the amount of research credit (if any) allowable to a trade or business that at the end of its taxable year is a member of a controlled group of corporations or a group of trades or businesses under common control, a taxpayer must—

(i) Compute the group credit in the manner described in paragraph (b) of this section, and

(ii) Allocate the group credit among the members of the group in the manner described in paragraph (c) of this section.

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(4) *Definition of group credit.* For purposes of this section, the term *group credit* means the research credit (if any) allowable to a controlled group of corporations or a group of trades or businesses under common control.

(b) *Computation of the group credit—*  
(1) *In general.* All members of a controlled group of corporations or a

group of trades or businesses under common control are treated as a single taxpayer for purposes of computing the research credit. The group credit is computed by applying all of the section 41 computational rules on an aggregate basis.

(2) *Start-up companies.* A controlled group of corporations or a group of trades or businesses under common control is treated as a start-up company for purposes of determining the group's fixed-base percentage under section 41(c)(3)(B)(ii) only if each member of the group qualifies as a start-up company under section 41(c)(3)(B)(i).

(c) *Allocation of the group credit—*(1) *In general.* To determine the amount of the group credit (if any) computed under paragraph (b) of this section that is allocated to a member of the group, a taxpayer must—

(i) Compute the member's stand-alone entity credit; and

(ii) Multiply the group credit by the ratio that the member's stand-alone entity credit bears to the sum of the stand-alone entity credits of all the members of the group:

$$\text{group credit} \times \frac{\text{member's stand-alone entity credit}}{\text{sum of all the members' stand-alone entity credits}}$$

(2) *Stand-alone entity credit.* For purposes of this section, the term *stand-alone entity credit* means the research credit (if any) that would be allowable to a member of a group if the credit were computed without regard to section 41(f). In computing a member's stand-alone entity credit, a taxpayer must use the same method (*i.e.*, the computation method provided in section 41(a) or the elective method provided in section 41(c)(4)) that was used to compute the

group credit. Therefore, if the research credit determined under section 41(a) is not allowable to the group and the group credit is computed using the alternative incremental research credit (AIRC) rules of section 41(c)(4), each member's stand-alone entity credit also must be computed using the AIRC rules, even if the research credit determined under section 41(a) would be allowable to a member if that member were not a part of the group.

(d) *Examples.* The following examples illustrate the provisions of this section:

*Example 1. Research credit—*(i) *Facts.* A, B, and C, all of which are calendar-year taxpayers, are members of a controlled group of corporations. Neither A, B, nor C made any basic research payments for their taxable year ending December 31, 2003. For purposes of computing the group credit for the 2003 taxable year (the credit year), A, B, and C had the following:

	A	B	C	Group aggregate
Credit Year Qualified Research Expenses (QREs) .....	\$200x	\$20x	\$110x	\$330x
1984–1988 QREs .....	\$40x	\$10x	\$100x	\$150x
1984–1988 Gross Receipts .....	\$1,000x	\$350x	\$150x	\$1,500x
Average Annual Gross Receipts for 4 Years Preceding the Credit Year .....	\$1,200x	\$200x	\$300x	\$1,700x

(ii) *Computation of the group credit—*(A) *In general.* The research credit allowable to the group is computed as if the three corporations were one taxpayer. The group credit is equal to 20 percent of the excess of the group's aggregate credit year QREs (\$330x) over the group's base amount (\$170x). The group credit is  $0.20 \times (\$330x - \$170x)$ , which equals \$32x.

(B) *Group's base amount—*(1) *Computation.* The group's base amount

equals the greater of: the group's fixed-base percentage (10 percent) multiplied by the group's aggregate average annual gross receipts for the 4 taxable years preceding the credit year (\$1,700x), or the group's minimum base amount (\$165x). The group's base amount, therefore, is \$170x, which is the greater of:  $0.10 \times \$1,700x$ , which equals \$170x, or \$165x.

(2) *Group's minimum base amount.* The group's minimum base amount is 50 percent

of the group's aggregate credit year QREs. The group's minimum base amount is  $0.50 \times \$330x$ , which equals \$165x.

(3) *Group's fixed-base percentage.* The group's fixed-base percentage is the lesser of: the ratio that the group's aggregate QREs for the taxable years beginning after December 31, 1983, and before January 1, 1989, bears to the group's aggregate gross receipts for the same period, or 16 percent (the statutory minimum). The group's fixed-base