

percentage, therefore, is 10 percent, which is the lesser of: \$150x/\$1,500x, which equals 10 percent, or 16 percent.

(iii) *Allocation of the group credit.* The group credit of \$32x is allocated among the members of the group based on the ratio that each member's stand-alone entity credit bears

to the sum of the stand-alone entity credits of all the members of the controlled group. The \$32x group credit is allocated as follows:

	A	B	C	Total
Stand-Alone Entity Credit .....	\$20x	\$2x	\$11x	\$33x
Allocation Ratio (Stand-Alone Entity Credit/Sum of Stand-Alone Entity Credits) .....	20/33	2/33	11/33	
Multiplied by: Group Credit .....	\$32x	\$32x	\$32x	
Equals: Credit Allocated to Member .....	\$19.39x	\$1.94x	\$10.67x	\$32x

*Example 2. Member is a start-up company—(i) Facts.* D, E, and F, all of which are calendar-year taxpayers, are members of a controlled group of corporations. F is a

start-up company under section 41(c)(3)(B)(i). D and E are not start-up companies under section 41(c)(3)(B)(i). Neither D, E, nor F made any basic research payments during the

2003 taxable year. For purposes of computing the group credit for the 2003 taxable year (the credit year), D, E, and F had the following:

	D	E	F	Group aggregate
Credit Year QREs .....	\$200x	\$20x	\$50x	\$270x
1984–1988 QREs .....	\$55x	\$15x	\$0x	\$70x
1984–1988 Gross Receipts .....	\$1,000x	\$400x	\$0x	\$1,400x
Average Annual Gross Receipts for 4 Years Preceding the Credit Year .....	\$1,200x	\$200x	\$0x	\$1,400x

(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 (\$270x) over the group's base amount (\$135x). The group credit is  $0.20 \times (\$270x - \$135x)$ , which equals \$27x.

(B) *Group's base amount—(1) Computation.* The group's base amount equals the greater of: the group's fixed-base percentage (5 percent) multiplied by the group's aggregate average annual gross receipts for the 4 taxable years preceding the credit year (\$1,400x), or the group's

minimum base amount (\$135x). The group's base amount, therefore, is \$135x, which is the greater of:  $0.05 \times \$1,400x$ , which equals \$70x, or \$135x.

(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  $0.50 \times \$270x$ , which equals \$135x.

(3) *Group's fixed-base percentage.* Because only one member of the group, F, is a start-up company under section 41(c)(3)(B)(i), the group is not a start-up company under paragraph (b)(2) of this section. Therefore, 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 percentage, therefore, is 5 percent, which is the lesser of:  $\$70x/\$1,400x$ , which equals 5 percent, or 16 percent.

(iii) *Allocation of the group credit.* The group credit of \$27x is allocated among the members of the group based on the ratio that each member's stand-alone entity credit bears to the sum of stand-alone entity credits of all the members of the controlled group. The \$27x group credit is allocated as follows:

	D	E	F	Total
Stand-Alone Entity Credit .....	\$20x	\$2x	\$5x	\$27x
Allocation Ratio (Stand-Alone Entity Credit/Sum of Stand-Alone Entity Credits) .....	20/27	2/27	5/27	
Multiplied by: Group Credit .....	\$27x	\$27x	\$27x	
Equals: Credit Allocated to Member .....	\$20x	\$2x	\$5x	\$27x

*Example 3. Group is a start-up company—(i) Facts.* G, H, and I, all of which are calendar-year taxpayers, are members of a controlled group of corporations. Each of G, H, and I qualifies as a start-up company under section 41(c)(3)(B)(i). The 2003 taxable year is the fifth taxable year beginning after

December 31, 1993, for which each of G, H, and I has QREs. Because each of G, H, and I qualifies as a start-up company under section 41(c)(3)(B)(i), the group is treated as a start-up company under paragraph (b)(2) of this section. The 2003 taxable year is the fifth taxable year beginning after December 31,

1993, for which the group has QREs. Neither G, H, nor I made any basic research payments during the 2003 taxable year. For purposes of computing the group credit for the 2003 taxable year (the credit year), G, H, and I had the following:

	G	H	I	Group aggregate
Credit Year QREs .....	\$255x	\$25x	\$100x	\$380x
1984–1988 QREs .....	\$0x	\$0x	\$0x	\$0x
1984–1988 Gross Receipts .....	\$0x	\$0x	\$0x	\$0x
Average Annual Gross Receipts for 4 Years Preceding the Credit Year .....	\$1,600x	\$340x	\$300x	\$2,240x

(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 (\$380x) over the group's base amount (\$190x). The group credit is  $0.20 \times (\$380x - \$190x)$ , which equals \$38x.

(B) *Group's base amount—(1) Computation.* The group's base amount equals the greater of: the group's fixed-base percentage (3 percent) multiplied by the group's aggregate average annual gross