

receipts for the 4 taxable years preceding the credit year (\$2,240x), or the group's minimum base amount (\$190x). The group's base amount, therefore, is \$190x, which is the greater of:  $0.03 \times \$2,240x$ , which equals \$67.2x, or \$190x.

(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  $0.50 \times \$380x$ , which equals \$190x.

(3) *Group's fixed-base percentage.* Each member of the group is a start-up company under section 41(c)(3)(B)(i), therefore, the group is a start-up company under paragraph (b)(2) of this section. Because the 2003 taxable year is the fifth taxable year beginning after December 31, 1993, for which the group has QREs, under section

41(c)(3)(B)(ii)(I), the group's fixed-base percentage is 3 percent.

(iii) *Allocation of the group credit.* The group credit of \$38x 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 \$38x group credit is allocated as follows:

	G	H	I	Total
Stand-Alone Entity Credit .....	\$25.5x	\$2.5x	\$10x	\$38x
Allocation Ratio (Stand-Alone Entity Credit/Sum of Stand-Alone Entity Credits) .....	25.5/38	2.5/38	10/38	
Multiplied by: Group Credit .....	\$38x	\$38x	\$38x	
Equals: Credit Allocated to Member .....	\$25.5x	\$2.5x	\$10x	\$38x

*Example 4. Group alternative incremental research credit—(i) Facts.* J, K, and L, all of which are calendar-year taxpayers, are members of a controlled group of corporations. The research credit under

section 41(a) is not allowable to the group for the 2003 taxable year because the group's aggregate QREs for the 2003 taxable year are less than the group's base amount. The group credit is computed using the AIRC rules of

section 41(c)(4). For purposes of computing the group credit for the 2003 taxable year (the credit year), J, K, and L had the following:

	J	K	L	Group aggregate
Credit Year QREs .....	\$0x	\$20x	\$110x	\$130x
Average Annual Gross Receipts for 4 Years Preceding the Credit Year .....	\$1,200x	\$200x	\$300x	\$1,700x

(ii) *Computation of the group credit.* The research credit allowable to the group is computed as if the three corporations were one taxpayer. The group credit is equal to the sum of: 2.65 percent of so much of the group's aggregate QREs for the taxable year as exceeds 1 percent of the group's aggregate average annual gross receipts for the 4 taxable years preceding the credit year, but does not exceed 1.5 percent of such average;

3.2 percent of so much of the group's aggregate QREs as exceeds 1.5 percent of such average but does not exceed 2 percent of such average; and 3.75 percent of so much of such QREs as exceeds 2 percent of such average. The group credit is  $[0.0265 \times [(\$1,700x \times 0.015) - (\$1,700x \times 0.01)]] + [0.032 \times [(\$1,700x \times 0.02) - (\$1,700x \times 0.015)]] + [0.0375 \times [\$130x - (\$1,700x \times 0.02)]]$ , which equals \$4.10x.

(iii) *Allocation of the group credit.* The group credit is allocated to each member of the group by multiplying the group credit by 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 group. The \$4.10x group credit is allocated as follows:

	J	K	L	Total
Stand-Alone Entity Credit .....	\$0x	\$0.66x	\$3.99x	\$4.65x
Allocation Ratio (Stand-Alone Entity Credit/Sum of Stand-Alone Entity Credits) .....	0/4.65	0.66/4.65	3.99/4.65	
Multiplied by: Group Credit .....	\$4.10x	\$4.10x	\$4.10x	
Equals: Credit Allocated to Member .....	\$0x	\$0.58x	\$3.52x	\$4.10x

(e) *For taxable years beginning before January 1, 1990.* For taxable years beginning before January 1, 1990, see § 1.41–6 as contained in 26 CFR part 1, revised April 1, 2003.

(f) *Tax accounting periods used—(1) In general.* The credit allowable to a member of a controlled group of corporations or a group of trades or businesses under common control is that member's share of the group credit computed as of the end of that member's taxable year. In computing the group credit for a group whose members have different taxable years, a member generally should treat the taxable year of another member that ends with or within the credit year of the computing member as the credit year of that other member. For example, M, N, and O are members of a controlled group of

corporations. M and N file a calendar year consolidated return. O files a separate return using a fiscal year ending June 30. For purposes of computing the group credit at the end of the M's and N's (the computing members') calendar year on December 31, O's fiscal year ending June 30, which ends within the M's and N's calendar year, is treated as O's credit year.

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(i) *Effective date.* Paragraphs (a)(1), (a)(4), (b), (c), (d), and (f)(1) of this section are applicable for taxable years beginning on or after the date these regulations are published in the **Federal Register** as final regulations. Generally, a taxpayer may use any reasonable method of computing and allocating the credit for taxable years beginning before

the date these regulations are published in the **Federal Register** as final regulations. However, paragraph (b) relating to the computation of the group credit and paragraph (c), relating to the allocation of the group credit, will apply to taxable years ending on or after December 29, 1999, if the members of a controlled group, as a whole, claimed more than 100 percent of the amount that would be allowable under paragraph (b). In the case of a controlled group whose members have different taxable years and whose members use inconsistent methods of allocation, the members of the controlled group shall be deemed to have, as a whole, claimed more than 100 percent of the amount