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Financials	Y1	Y2	Y3
Revenue	10,000	11,000	11,000
Other expenses	7,000	7,000	6,000
R&D expenses	1,000	1,500	1,500
Growth rate	*0%*	*50%*	*0%*
Average growth rate(AGR)	*0%*	*50%*	*20%*
R&D/Revenue ratio(RRR)	*10%*	*14%*	*14%*
Profit before tax	2,000	2,500	3,500
Income tax			
Federal income tax (23%)	460	575	805
R&D tax credit [1]	-85	-186	-204
Regional income tax (10% of federal income	46	58	81
R&D tax credit	-	-	-
…			

Tax Credit			
Index: *Average growth rate(AGR)*	*0%*	*50%*	*20%*
Tax credit rate(TCR)	8.5%	14.0%	13.5%
Tax credit	85	210	203
Cap (25% of federal income tax)	115	144	201
Tax credit	85	144	201

Additional Tax Credit (either A or B)			
A: Cap Extension			
Index: *R&D/Revenue ratio(RRR)*	*10%*	*14%*	*14%*
Additional cap rate(up to 10%)	0%	7%	7%
Reviced Cap	115	186	260
Additional tax credit	0	42	2
B: High Level R&D			
Index: *R&D/Revenue ratio(RRR)*	*10%*	*14%*	*14%*
High level portion	0	450	400
Additional tax credit rate	0.0%	0.7%	0.7%
Additional tax credit	0	3	3
Cap (10% of federal income tax)	46	58	81
Additional tax credit	0	3	3
Additional tax credit	0	42	3

Total tax credit [1]	85	186	204

For the first year, TCR is calculated 8.5% (= 9% - [5% - AGR0%] × 0.1) as AGR is deemed 0%. Calculated tax credit 85 (= R&D expenses 1000 × TCR8.5%) is less than the cap amount of 115 (= 25% × Federal income tax 460). RRR10% is not more than 10%, which provides no additional tax credit. For the second year, you can take additional tax credit because RRR14% is more than 10%. Additional tax credit is calculated 42 by Cap Extension program, which is higher than the additional tax credit 3 offered by High Level R&D program. For the third year, you will opt High Level R&D as it provides greater additional tax.