

# Overview of Arizona Research Income Tax Credit

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- ▶ Credit is allowed against taxes imposed by Title 43 of the Arizona Revised Statutes
  - ▶ C- Corporations
  - ▶ Individuals
    - ▶ Sole Proprietorships
    - ▶ Partnerships
    - ▶ S-Corporations
- ▶ Arizona qualified research expenditures (QREs)
  - ▶ Only includes research conducted in Arizona
- ▶ 15 year carry forward of unused credit

# General definition of qualified research expenditures (QRE)

Wages, supplies, and 65% of contract research in qualified research activities:

## Permitted Purpose

New or improved business component in terms of :

- Function
- Performance
- Reliability
- Quality
- Significant cost reduction

## Eliminating Uncertainty

Activity must be intended to discover information that would eliminate technical uncertainty concerning the **capability** or **method** for developing or improving a product or process, or the **appropriateness of the product design**.

## Technological in Nature – “Discovery” Test

Discover information that fundamentally relies on principles of:

- Physical Science
- Biological Science
- Computer Science
- Engineering

## Process of Experimentation

- Evaluate alternatives
- Develop hypothesis
- Test hypothesis
- Refine or discard the hypothesis
- Success or failure

**Excludes research performed outside of the U.S. and excludes “funded research.”**

# Arizona SB 1254 – What is the incentive?

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- ▶ 2010 Arizona legislation providing a refundable mechanism to the current Arizona Research Credit
- ▶ Effective for years beginning after 12/31/2009 (only applies to costs incurred in 2010)
- ▶ \$5M cap on refunds in any calendar year (all taxpayers, certified on a first come, first serve basis)

# Arizona SB 1254 – qualifying taxpayers

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- ▶ Must have Arizona based Qualifying Research Activity
- ▶ Taxpayer must employ less than 150 full time equivalent employees
  - ▶ FTE employee level measured at 12/31 of a taxable year

# Arizona SB 1254 – process

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- ▶ The Arizona Dept. of Commerce will receive, evaluate and certify taxpayer applications for refund
- ▶ Application information
  - ▶ Taxpayer's name, address, FEIN (or other identifying number), and phone number/email address of person responsible for the application
  - ▶ Description of business and Arizona research activity
  - ▶ Number of full time employees on payroll as of 12/31 of the taxable period
  - ▶ Amount of credit
- ▶ Processing fee of 1% of requested refund amount to be submitted with application

# Arizona SB 1254 – tax ramifications

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- ▶ 75% of the credit amount that exceeds the current period tax liability is refundable
- ▶ The excess 25% is forfeited
- ▶ Taxpayer's that carry forward credit may not thereafter apply and/or claim a refund

# Arizona SB 1254 – timing

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- ▶ Given \$5M cap, time is of the essence
- ▶ Expecting a first wave of application shortly after 12/31/2010
- ▶ R&D study (documentation, etc.) should begin as soon as possible