

ARIZONA STATE R&D TAX CREDIT

ELIGIBILITY

In general, taxpayers are eligible for the R&D Tax Credit if they have QREs as defined by IRC §41 in Arizona during the tax period. A Certification of Qualification/Letter of Approval must also be obtained if applying for a refund and/or the University Research and Development Tax Credit respectively. Applications for Certification must be submitted electronically through 'EASY'. There are 2 distinct programs run by separate government bodies.

- 1) The non-refundable tax credit is administered by the Arizona Department of Revenue and can be used to offset the income tax liability. An individual or corporate income tax credit is also available for taxpayers that make basic research payments to a university under the jurisdiction of the Arizona Board of Regents for taxable years from and after December 31, 2011. This credit can be taken in addition to the Credit for Increased Research Activities.
- 2) The refundable tax credit is administered by the Arizona Commerce Authority. To be eligible for a partial refund, a company must employ less than 150 full-time employees. It is approved on a first-come, first-served basis.

CALCULATING THE BENEFIT

The Arizona non-refundable R&D Credit is claimed using Form AZ 308. Form 308 is submitted with the annual Arizona state return. The 2011 through 2030 R&D tax credit is equal to 24% of the first \$2.5 million in qualifying expenses plus 15% of the qualifying expenses in excess of \$2.5 million. For 2031 and

thereafter, the tax credit rates will be 20% of the first \$2.5 million in qualifying expenses plus 11% of the qualifying expenses in excess of \$2.5 million.

The R&D tax credit refund is the lesser of:

- a) 75% of the excess credit*. The remaining 25% is forfeited if a refund is issued; or
- b) \$100,000 (the remaining balance of the otherwise non-refundable portion is forfeited if a refund is issued); or
- c) The maximum refund amount on the Certificate of Qualification from the Authority.

There is a cap of \$5M for any calendar year. Beginning in calendar year 2019, **the maximum refund amount per taxpayer is \$100,000 in a single tax year.** The additional credit for university R&D has a cap of \$10M.

UTILIZATION

The tax credit, including any carry forward amount may be used to offset the tax liability. Any amount in excess of the tax liability may be carried forward for a maximum of 15 consecutive tax periods.

SUMMARY OF STATE CREDIT

- Form: **AZ 308**
- Effective: **1992**
- Expiration: **Indefinite**
- Calc Rate: **24% of QRE's over base up to 2.5 million, plus 15% of remaining QRE's**
- Base period: **50% of avg QREs of past 3 yrs**
- Carry-forward: **15 years**
- Offset: **State Tax Liability**
- Refund: **75% of credit (small businesses)**

YR	TOTAL QREs	CREDIT CALCULATION	AZ CREDIT
2019	\$750k	1) Base Amount: $[(650 + 500 + 400) / 3] \times 50\% = 258.3$ 2) $750 - 258.3 = 491.7$ 3) $491.7 \times 24\%$	\$118k
Prior Year Amounts			
2018	\$650k		
2017	\$500k		
2016	\$400k		

*the excess credit is the current year's R&D credit for increased research activities less the current year's tax liability

