



Research and Development Tax Credit

Frequently Asked Questions

Arizona Commerce Authority
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www.azcommerce.com

The Research and Development (R&D) program provides an Arizona income tax credit for increased research and development activities conducted in this state, including research conducted at a state university and funded by the company. The goal of the program is to encourage Arizona businesses to continue investing in research and development activities.

1. Who qualifies for a refund of the R&D tax credit?

A business that meets all of the following conditions may qualify for a refund:

- a) The current year's Arizona R&D tax credit exceeds the current year's tax liability;
- b) Employs less than 150 full-time employees, as of 12/31 of the year the tax credit is claimed (this applies company-wide for the taxpayer, the unitary group, or the consolidated filer, as appropriate); and
- c) Received a "Certificate of Qualification" from Commerce.

2. How does a business apply for a "Certificate of Qualification" from Commerce?

By completing and submitting an original application to Commerce with all the required supplemental documents.

3. Is there a processing fee to apply?

Yes, along with the application you must submit a check, payable to Commerce, equal to 1% of the refund amount. (See question 15 for additional information.)

4. When can I apply for a certificate from Commerce?

After the end of the tax year but prior to filing a tax return with Revenue. Commerce will certify businesses on a first come, first serve basis. A company can apply as early as January 3, 2012, for calendar year 2011.

5. Where can I get an application?

Application forms are available at www.azcommerce.com

6. How long does it take to obtain a certificate from Commerce?

Commerce will make a determination with regards to each application within 30 days after the receipt of a complete application. Applications will be reviewed on a first come, first serve basis.



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7. What is the amount of the Arizona R&D tax credit?

The Arizona R&D tax credit calculation is based on the federal regular credit computation for Arizona qualified research expenses and Arizona basic research payments. Refer to Arizona Form 308 (for corporations) or Arizona Form 308-I (for individuals) and the related instructions for details of the calculation. The forms and instructions are on the website of the Arizona Department of Revenue at: <http://www.azdor.gov/Forms/Credits.aspx>

The percentage used to calculate the tax credit will depend on the tax year in which R&D activity is conducted, as outlined below:

- For tax year 2011 thru 2017, if the allowable expenses are \$2,500,000 or less the credit is 24% of the allowable expenses. For tax year 2018 and thereafter the credit is 20% of the allowable expenses.
- For tax year 2011 thru 2017, if the allowable expenses exceed \$2,500,000, the credit is \$600,000 plus 15% of the amount of expenses over \$2,500,000. For tax year 2018 and thereafter, the credit is \$500,000 plus 11% of the amount of expenses over \$2,500,000.
- Beginning in 2011 an additional credit amount is allowed if the taxpayer made basic research payments during the tax year to an Arizona state university, the additional credit amount is equal to 10% of the basic research payments that constitute excess expenses for the tax year over the base amount.

8. Is the R&D tax credit refundable?

For taxable years beginning from and after December 31, 2009, up to 75% of the excess credit could be refunded to qualified taxpayers. The excess credit is the current year's credit amount less the current year's tax liability.

9. How is the current year's tax liability calculated for purposes of the refund?

The current year's tax liability is the calculated tax plus any recapture, less the Clean Elections tax reduction and any other nonrefundable credits and carryovers from Arizona Form 300 for corporations or Arizona Form 301 for individuals, but not including the Arizona R&D credit or prior year carryovers. The current year's tax liability cannot be less than zero.

10. How is the refund calculated?

The refund is the lesser of:

- a) 75% of the excess credit (the excess credit is the current year's credit for increased research activities less the current year's tax liability); or
- b) The maximum refund amount on the "Certificate of Qualification" from Commerce.

The remaining 25% is forfeited.



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11. Is there a cap on the amount of refunds Commerce may approve?

Yes, Commerce may not approve refunds exceeding a total of \$5 million per calendar year. If the entire cap is not approved in a calendar year, the remaining amount rolls over into the cap for the following year.

12. Is there a refund amount limit per application?

No, other than the annual cap.

13. What if a business has already filed a tax return with Revenue?

The business cannot elect to receive a refundable R&D tax credit for that tax year.

14. How does a business claim a refund?

After receiving a "Certificate of Qualification" from Commerce, the taxpayer must submit the following documents to the Arizona Department of Revenue:

- a) The tax return;
- b) Arizona Form 308 (for corporations) or Arizona Form 308-I (for individuals); and
- c) A copy of the "Certificate of Qualification".

15. How do I calculate my refund amount and processing fee?

Refund and Processing Fee Example	
Current year R&D Tax Credit	\$40,000.00
Current Year Tax Liability	\$0.00
Excess Credit	\$40,000.00
Refund limited to 75%	\$30,000.00
Forfeit 25%	\$10,000.00
Processing Fee 1% of Refund	\$300.00

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