

REFERENCE TITLE: research and development; tax credit

State of Arizona  
Senate  
Forty-eighth Legislature  
Second Regular Session  
2008

## **SB 1434**

Introduced by  
Senators Bee, Leff, O'Halleran; Representative Cajero Bedford; Senator  
Verschoor; Representatives Adams, Clark, Crandall, DeSimone, Reagan,  
Weiers JP

AN ACT

AMENDING SECTIONS 43-1074.01 AND 43-1168, ARIZONA REVISED STATUTES; RELATING  
TO INDIVIDUAL AND CORPORATE INCOME TAX CREDITS.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 43-1074.01, Arizona Revised Statutes, is amended to  
3 read:

4 43-1074.01. Credit for increased research activities

5 A. A credit is allowed against the taxes imposed by this title in an  
6 amount determined pursuant to section 41 of the internal revenue code, except  
7 that:

8 1. The amount of the credit is based on the excess, if any, of the  
9 qualified research expenses for the taxable year over the base amount as  
10 defined in section 41(c) of the internal revenue code and is computed as  
11 follows:

12 (a) If the excess is two million five hundred thousand dollars or  
13 less, the credit is equal to ~~twenty~~ TWENTY-FOUR per cent of that amount.

14 (b) If the excess is over two million five hundred thousand dollars,  
15 the credit is equal to ~~five~~ SEVEN hundred ~~FIFTY~~ thousand dollars plus ~~eleven~~  
16 FIFTEEN per cent of any amount exceeding two million five hundred thousand  
17 dollars, except that:

18 (i) For taxable years beginning from and after December 31, 2000  
19 through December 31, 2001, the credit shall not exceed one million five  
20 hundred thousand dollars.

21 (ii) For taxable years beginning from and after December 31, 2001  
22 through December 31, 2002, the credit shall not exceed two million five  
23 hundred thousand dollars.

24 2. Qualified research includes only research conducted in this state  
25 including research conducted at a university in this state and paid for by  
26 the taxpayer.

27 3. If two or more taxpayers, including partners in a partnership and  
28 shareholders of an S corporation, as defined in section 1361 of the internal  
29 revenue code, share in the eligible expenses, each taxpayer is eligible to  
30 receive a proportionate share of the credit.

31 4. The credit under this section applies only to expenses incurred  
32 from and after December 31, 2000.

33 5. The termination provisions of section 41 of the internal revenue  
34 code do not apply.

35 B. If the allowable credit under this section exceeds the taxes  
36 otherwise due under this title on the claimant's income, or if there are no  
37 taxes due under this title, the amount of the credit not used to offset taxes  
38 may be carried forward to the next fifteen consecutive taxable years. The  
39 amount of credit carryforward from taxable years beginning from and after  
40 December 31, 2000 through December 31, 2002 that may be used in any taxable  
41 year may not exceed the taxpayer's tax liability under this title or five  
42 hundred thousand dollars, whichever is less, minus the credit under this  
43 section for the current taxable year's qualified research expenses. The  
44 amount of credit carryforward from taxable years beginning from and after  
45 December 31, 2002 that may be used in any taxable year may not exceed the

1 taxpayer's tax liability under this title minus the credit under this section  
2 for the current taxable year's qualified research expenses.

3 Sec. 2. Section 43-1168, Arizona Revised Statutes, is amended to read:  
4 43-1168. Credit for increased research activities

5 A. A credit is allowed against the taxes imposed by this title in an  
6 amount determined pursuant to section 41 of the internal revenue code, except  
7 that:

8 1. The amount of the credit is computed as follows:

9 (a) Add:

10 (i) The excess, if any, of the qualified research expenses for the  
11 taxable year over the base amount as defined in section 41(c) of the internal  
12 revenue code.

13 (ii) The basic research payments determined under section 41(e)(1)(A)  
14 of the internal revenue code.

15 (b) If the sum computed under subdivision (a) is two million five  
16 hundred thousand dollars or less, the credit is equal to ~~twenty~~ TWENTY-FOUR  
17 per cent of that amount.

18 (c) If the sum computed under subdivision (a) is over two million five  
19 hundred thousand dollars, the credit is equal to ~~five~~ SEVEN hundred FIFTY  
20 thousand dollars plus ~~eleven~~ FIFTEEN per cent of any amount exceeding two  
21 million five hundred thousand dollars, except that:

22 (i) For taxable years beginning from and after December 31, 2000  
23 through December 31, 2001, the credit shall not exceed one million five  
24 hundred thousand dollars.

25 (ii) For taxable years beginning from and after December 31, 2001  
26 through December 31, 2002, the credit shall not exceed two million five  
27 hundred thousand dollars.

28 2. Qualified research includes only research conducted in this state  
29 including research conducted at a university in this state and paid for by  
30 the taxpayer.

31 3. If two or more taxpayers, including corporate partners in a  
32 partnership, share in the eligible expenses, each taxpayer is eligible to  
33 receive a proportionate share of the credit.

34 4. The credit under this section applies only to expenses incurred  
35 from and after December 31, 1993.

36 5. The termination provisions of section 41 of the internal revenue  
37 code do not apply.

38 B. If the allowable credit under this section exceeds the taxes  
39 otherwise due under this title on the claimant's income, or if there are no  
40 taxes due under this title, the amount of the credit not used to offset taxes  
41 may be carried forward to the next fifteen consecutive taxable years. The  
42 amount of credit carryforward from taxable years beginning from and after  
43 December 31, 2000 through December 31, 2002 that may be used under this  
44 subsection in any taxable year may not exceed the taxpayer's tax liability  
45 under this title or five hundred thousand dollars, whichever is less, minus

1 the credit under this section for the current taxable year's qualified  
2 research expenses. The amount of credit carryforward from taxable years  
3 beginning from and after December 31, 2002 that may be used under this  
4 subsection in any taxable year may not exceed the taxpayer's tax liability  
5 under this title minus the credit under this section for the current taxable  
6 year's qualified research expenses.

7 C. If a taxpayer has qualified research expenses that are carried  
8 forward from taxable years beginning before January 1, 2001, the amount of  
9 the expenses carried forward shall be converted to a credit carryforward by  
10 multiplying the amount of the qualified expenses carried forward by twenty  
11 per cent. A credit carryforward determined under this subsection may be  
12 carried forward to not more than fifteen years from the year in which the  
13 expenses were incurred. The amount of credit carryforward from taxable years  
14 beginning before January 1, 2001 that may be used under this subsection in  
15 any taxable year may not exceed the taxpayer's tax liability under this title  
16 or five hundred thousand dollars, whichever is less, minus the credit under  
17 this section for the current taxable year's qualified research expenses. The  
18 total amount of credit carryforward from taxable years beginning before  
19 January 1, 2003 that may be used in any taxable year under ~~the provisions of~~  
20 subsection B and this subsection may not exceed the taxpayer's tax liability  
21 under this title or five hundred thousand dollars, whichever is less, minus  
22 the credit under this section for the current taxable year's qualified  
23 research expenses.

24 Sec. 3. Credit for increased research activities; 2009 tax  
25 credit amounts

26 A. Notwithstanding section 43-1074.01, subsection A, paragraph 1,  
27 Arizona Revised Statutes, as amended by this act, for taxable years beginning  
28 from and after December 31, 2008 through December 31, 2009, the amount of the  
29 credit is based on the excess, if any, of the qualified research expenses for  
30 the taxable year over the base amount as defined in section 41(c) of the  
31 internal revenue code and is computed as follows:

32 1. If the excess is two million five hundred thousand dollars or less,  
33 the credit is equal to twenty-two per cent of that amount.

34 2. If the excess is over two million five hundred thousand dollars,  
35 the credit is equal to seven hundred fifty thousand dollars plus thirteen per  
36 cent of any amount exceeding two million five hundred thousand dollars,

37 B. Notwithstanding section 43-1168, subsection A, paragraph 1, Arizona  
38 Revised Statutes, as amended by this act, for taxable years beginning from  
39 and after December 31, 2008 through December 31, 2009, the amount of the  
40 credit is computed as follows:

41 1. Add:

42 (a) The excess, if any, of the qualified research expenses for the  
43 taxable year over the base amount as defined in section 41(c) of the internal  
44 revenue code.

1 (b) The basic research payments determined under section 41(e)(1)(A)  
2 of the internal revenue code.

3 2. If the sum computed under paragraph 1 of this subsection is two  
4 million five hundred thousand dollars or less, the credit is equal to  
5 twenty-two per cent of that amount.

6 3. If the sum computed under paragraph 1 of this subsection is over  
7 two million five hundred thousand dollars, the credit is equal to seven  
8 hundred fifty thousand dollars plus thirteen per cent of any amount exceeding  
9 two million five hundred thousand dollars,

10 Sec. 4. Effective date

11 This act is effective and applies to taxable years beginning from and  
12 after December 31, 2008.