

**2016 Credit for Increased Research Activities - Individuals**

**CONTACTS FOR REFUND OF CREDIT FOR INCREASED RESEARCH ACTIVITIES**

**Arizona Commerce Authority**

- Application forms
- Program guidelines

Website: **www.azcommerce.com**  
 Program Manager (602) 845-1200

**CONTACTS FOR NONREFUNDABLE CREDIT FOR INCREASED RESEARCH ACTIVITIES**

**Arizona Department of Revenue**

- Tax forms and instructions
- Information and assistance

Website: **www.azdor.gov**  
 Taxpayer assistance (602) 255-3381  
 From area codes 520 and 928, toll-free (800) 352-4090

**General Instructions**

**NOTE:** THE 2016 FORM 308-I IS USED ONLY BY INDIVIDUAL TAXPAYERS. CORPORATIONS, EXEMPT ORGANIZATIONS WITH UNRELATED BUSINESS TAXABLE INCOME, S CORPORATIONS, OR PARTNERSHIPS MUST USE THE 2016 FORM 308.

Arizona Revised Statutes (A.R.S.) § 43-1074.01 provides an individual income tax credit for increased research activities in a taxable year.

- The Arizona tax credit for individuals is allowed in an amount computed pursuant to Internal Revenue Code (IRC) § 41 with the following exceptions:
  - Qualified research includes only research conducted in Arizona. The term "qualified research", for purposes of the Arizona tax credit, means qualified research, as defined in IRC § 41, that is conducted in Arizona.
  - The amount of the credit is based on the federal regular credit computation method for Arizona qualified research expenses. Taxpayers cannot use the federal alternative credit computation method. The allowable current taxable year credit is a percentage of the excess, if any, of the Arizona qualified research expenses for the taxable year over the base amount.
- The termination provisions of IRC § 41 do not apply.
- For 2016, if the allowable expenses do not exceed \$2,500,000, the allowable credit is 24% of this amount. If the allowable expenses exceed \$2,500,000, the allowable credit amount is \$600,000 plus 15% of the amount of expenses over \$2,500,000.
- If two or more taxpayers, including shareholders of an S corporation and partners in a partnership, share in the eligible expenses, each taxpayer is eligible to receive a proportionate share of the credit.
- A portion of the current year's excess credit may be refundable if you qualify.
- The credit for increased research activities is in lieu of the solar liquid fuel credit, claimed on Arizona Form 344, with respect to the same expenses.

**REFUNDABLE PORTION OF THE CURRENT YEAR'S EXCESS CREDIT**

If you qualify, *and* if the current taxable year's credit for increased research activities exceeds your income tax liability, a portion of the excess credit may be refundable to you. To qualify to receive this refund:

- You must have less than 150 full-time employees .
- You must apply to the Arizona Commerce Authority (ACA) and receive a Certificate of Qualification (Certificate) to be eligible to receive a refund.
- The refund amount is the lesser of:
  - 75% of the excess credit, or
  - the maximum refund amount indicated on the Certificate; any additional amount is waived.

The excess credit is the current year's credit less the current year's tax liability. The 75% refund is only available for the current year's excess credit for increased research activities.

The election to make this credit refundable must be made when you file originally file your return to claim the current year's credit.

If two or more taxpayers, including shareholders of an S corporation and partners in a partnership, share in the eligible expenses, each taxpayer is eligible to claim a proportionate share of the refund. An S corporation must apply for the Certificate on behalf of its shareholders. A partnership must apply for the Certificate on behalf of its partners.

**NOTE:** *The refund of this credit is calculated after your tax liability. You must calculate all of your other credits before you can determine the current year's excess credit.*

**CARRYOVER OF UNUSED CREDIT**

If your current taxable year's credit exceeds your tax liability, and you did not receive a refund of the excess, you may carry forward the unused portion of your credit to the next 15 consecutive taxable years. Due to various law changes, the amount you may carry forward, and how you may apply those amounts, differ depending on the tax year in which it was earned.

If you received a refund of 75% of the excess credit, you do not have any excess amount to carryforward for this year. Any carryover amounts from the previous taxable year will be carried over to the next taxable year, subject to the 15-year carryover period and annual limitations on the use of those carryovers.

If you have other nonrefundable tax credits that you are using to reduce your tax liability, you may not be able to use all of your credit for increased research activities to reduce your tax this year. You will be applying these limitations when you complete Arizona Form 301, *Nonrefundable Individual Tax Credits and Recapture*.

**DO YOU HAVE TO MAKE OTHER ADJUSTMENTS TO ARIZONA GROSS INCOME OR TO THE ARIZONA TAX CREDIT FOR INCREASED RESEARCH ACTIVITIES?**

- If you claim an Arizona credit for increased research activities for the taxable year, Arizona statutes do not require you to make an addition to Arizona gross income

for the amount of qualified research expenses equal to the amount of the allowable Arizona credit.

- If you claim a reduced federal credit for increased research expenses and claim the Arizona credit for increased research activities, Arizona statutes do not require you to reduce the Arizona credit for increased research activities in a manner similar to the federal reduction method.
- If you reduce the amount of the deduction for qualified research activities in the computation of federal adjusted gross income, Arizona statutes do not allow you to take a subtraction from Arizona gross income for the amount of the expense reduction.
- If you adjust the federal asset basis of capitalized research expenses and reduce the amount of amortization deductible in the computation of federal adjusted gross income, Arizona statutes do not allow you to take a subtraction from Arizona gross income for additional amortization.

### Specific Instructions

Complete the name and Social Security Number section at the top of the form. Indicate the period covered by the taxable year. Include the completed form with the tax return.

All returns, statements, and other documents filed with the department require a taxpayer identification number (TIN). The TIN for an individual is the taxpayer's Social Security Number or an Internal Revenue Service individual taxpayer identification number. Taxpayers that fail to include their TIN may be subject to a penalty.

#### Part 1 - Qualification for the Credit

##### Line 1 -

Did your sole proprietorship have qualified research expenses for this taxable year?

- a. If your sole proprietorship had qualified research expenses for this taxable year and you intend to claim this credit, check the box labeled, "Yes".
- b. If your sole proprietorship did not have qualified research expenses for this taxable year, check the box labeled, "No". Go to line 3.

##### Line 2 -

Is this credit refundable?

- a. If this credit is refundable, check the box labeled, "Yes". Provide the information requested on lines 2a1 and 2a2.
- b. If this credit is not refundable, check the box labeled, "No".

##### Line 3 -

Are you claiming a pass through of this credit from a partnership or from an S corporation?

- If you are claiming a pass through of this credit from a partnership or from an S corporation, check the box labeled, "Yes".
- If you are not claiming a pass through of this credit, check the box labeled, "No". Go to line 5.

##### Line 4 -

Is this pass through credit refundable?

- If the pass through credit you received is refundable, check the box labeled, "Yes".
- If the pass through credit you received is not refundable, check the box labeled, "No".

##### Lines 5 - 7

Answer the questions on lines 5 through 7 to determine if you qualify for this credit. Your answers will help you complete the remainder of this form.

##### Line 8 -

Reserved.

#### Part 2 - Current Taxable Year's Credit Calculation (Sole Proprietorships Only)

**NOTE:** Complete this part only if you operate a business as a sole proprietorship and your sole proprietorship incurred qualified research expenses during the taxable year. If you received your credit as the result of a pass through, go to Part 3.

##### Line 9 -

Enter total wages paid or incurred for qualified services performed in Arizona. Do not include the amount of wages paid to employees that were used in the calculation of the federal work opportunity credit.

**NOTE:** Wages include any wages paid or incurred to an employee for qualified services performed in Arizona.

*Qualified services are: (1) engaging in qualified research; or, (2) engaging in the direct supervision, or the direct support of research activities conducted in Arizona that are defined as qualified research.*

*Qualified research is an investigation undertaken to discover information that is technological in nature. Its application must be intended for use in developing a new or improved business component.*

##### Line 10 -

Enter the cost of supplies paid or incurred for use in conducting qualified research in Arizona. Supplies include expenditures for any tangible property other than land or improvements to land and property of a character subject to the allowance for depreciation.

##### Line 11 -

Enter the amount paid or incurred to rent or lease the right to use computers in conducting qualified research in Arizona.

##### Line 12 -

Enter the total of:

- (a) Seventy-five percent (.75) of any amount paid or incurred for qualified research performed in Arizona by a qualified research consortium on your sole proprietorship's behalf. "Qualified research consortium" is any qualifying organization as defined in IRC § 41(b)(3)(C)(ii).
- (b) Sixty-five percent (.65) of any amount paid or incurred for qualified research performed in Arizona on your sole proprietorship's behalf, other than such amounts paid to

a qualified research consortium. Prepaid contract research expenses are considered paid in the year the research is actually done.

**NOTE:** *If your contract research expenses were made to an Arizona university under the jurisdiction of the Arizona Board of Regents and qualify as basic research payments, you may be entitled to an additional credit. See Form 346 for details.*

**Line 13 -**

Add lines 9 through 12. Enter the total.

**Line 14 -**

Enter the amount of expenses included on lines 9 through 12 that are related to solar liquid fuel that will be claimed on Arizona Form 344. The credit for increased research activities is in lieu of the solar liquid fuel credit, claimed on Arizona Form 344, with respect to the same expenses.

**Line 15 -**

Subtract line 14 from line 13. Enter the difference.

**Line 16 -**

Enter the average annual Arizona gross receipts for the four taxable years preceding the taxable year for which the credit is being determined (the credit year). You may be required to annualize gross receipts for any short taxable year.

If 2016 is the first year you are in business, the average annual Arizona gross receipts for the preceding taxable years is zero. If you have been in business in Arizona for less than four taxable years prior to the credit year, then the average is the sum of annual Arizona gross receipts of the applicable period, divided by the number of taxable years.

*Example:* ABC Corporation began business in Arizona in 2014. Its annual Arizona gross receipts for 2014 were \$100,000. Its annual Arizona gross receipts for 2015 were \$200,000. Therefore, ABC Corporation's average annual Arizona gross receipts for the 2016 credit year is \$150,000 ([\$100,000 plus \$200,000] divided by 2).

**Line 17 -**

**Fixed base percentage**

Use the same type of formulas to compute your fixed-base percentage for Arizona as you would for computing your federal fixed-base percentage. The difference is that you use Arizona qualified research expense and gross receipts amounts instead of federal amounts. Other than that, the calculations are the same. Round off the percentage to the nearest one, one hundredth of one percent (four decimal places).

If the percentage computation involves *de minimis* amounts of gross receipts and qualified expenses in a taxable year or short taxable years are involved, the amounts may be annualized or disregarded. Refer to IRC §§ 41(c)(3) and 41(f)(4) for details.

**Existing firms and start-up companies**

Arizona's definition of whether an organization is an existing firm or a start-up company is also the same as federal, except on an Arizona basis:

- **Existing firms** - An existing firm is one that had both Arizona gross receipts and Arizona qualified research

expenses for at least three taxable years beginning after December 31, 1983, and before January 1, 1989. The fixed-base percentage is the ratio that the aggregate Arizona qualified research expenses for all taxable years beginning after 1983 and before 1989, bears to the aggregate Arizona gross receipts for such taxable years.

- **Start-up companies** - A start-up company is one that had both Arizona gross receipts and Arizona qualified research expenses either (1) for the first time in a taxable year beginning after December 31, 1983, or (2) for fewer than three taxable years beginning after 1983 and before 1989.

<b>Fixed-Base Percentages for Taxable Years Beginning After 1993 in Which Start-Up Companies Incurred Arizona Qualified Research Expenses</b>	
<i>Taxable Year After 1993</i>	<i>Percentages for Taxable Years After 1993</i>
1st through 5th	3%
6th	Divide the aggregate Arizona qualified research expenses for 4th and 5th taxable years by the aggregate Arizona gross receipts for 4th and 5th taxable years. Multiply the result by 1/6 (.1667).
7th	Divide the aggregate Arizona qualified research expenses for 5th and 6th taxable years by the aggregate Arizona gross receipts for 5th and 6th taxable years. Multiply the result by 1/3 (.3333).
8th	Divide the aggregate Arizona qualified research expenses for 5th through 7th taxable years by the aggregate Arizona gross receipts for 5th through 7th taxable years. Multiply the result by 1/2 (.50).
9th	Divide the aggregate Arizona qualified research expenses for 5th through 8th taxable years by the aggregate Arizona gross receipts for 5th through 8th taxable years. Multiply the result by 2/3 (.6667).
10th	Divide the aggregate Arizona qualified research expenses for 5th through 9th taxable years by the aggregate Arizona gross receipts for 5th through 9th taxable years. Multiply the result by 5/6 (.8333).
All years after 10th	Divide the aggregate Arizona qualified research expenses for any 5 taxable years selected by the taxpayer from among the 5th through 10th taxable years by the aggregate Arizona gross receipts for the selected taxable years.

If the percentage computation involves *de minimis* amounts of gross receipts and qualified expenses in a taxable year or short taxable years are involved, the amounts may be annualized or disregarded. Refer to IRC §§ 41(c)(3) and 41(f)(4) for details.

**NOTE:** *The maximum percentage that can be entered on line 17 is 16% (.1600).*

**Line 18 –**

Multiply line 16 by the percentage on line 17. Enter the result.

**Line 19 –**

Subtract line 18 from line 15. Enter the result. If less than zero (“0”), enter zero (“0”).

**Line 20 -**

Multiply line 15 by 50% (.50). Enter the result. The base amount cannot be less than 50% of the current year qualified research expenses. This rule applies both to existing and start-up companies.

**Line 21 –**

Enter the lesser of line 19 or line 20.

**NOTE:**

- *If line 21 is \$2,500,000 or less, complete line 22 and skip lines 23 through 25.*
- *If line 21 is more than \$2,500,000, skip line 22 and complete lines 23 through 25.*

**Lines 22 through 26 -**

The amount of expenses you have determines the amount of current year credit you are eligible to claim. To determine your proper credit amount, complete lines 22 through 26 as instructed on the form.

**Part 3 – Current Year’s Credit Passed Through from S Corporations and Partnerships****Line 27 -**

Enter the total amount you received as a pass through from partnerships and/or S corporations from Form(s) 308-P, Part 2, line 4 and/or Forms 308-S, Part 2, line 4. Include a copy of all Forms 308-P and/or Forms 308-S you received with your return.

**Part 4 – Total Current Taxable Year’s Credit for Increased Research Activities****Line 28 -**

Add line 26 and line 27. Enter the total. **This is your current year’s total credit for increased research activities.**

**Part 5 - Refundable Portion of the Current Taxable Year's Excess Credit**

Complete Part 5 ***ONLY*** if you checked the “Yes” box on line 2 or on line 4 and elected to receive a refund of 75% of your excess credit.

If you checked the “No” box on line 2 and/or line 4, *or* you elect *not* to receive a refund of 75% of your excess credit, skip to Part 6.

The excess credit is the current taxable year's credit for increased research activities less the current taxable year's tax liability. Carryovers of the credit for increased research activities from previous taxable years will carry over for possible use in the next taxable year, provided they do not expire this taxable year.

**NOTE:** *If you complete Part 5 and are receiving a refund, do not complete Part 8.*

**Line 29 -**

Enter the amount from Part 4, line 28.

**Line 30a -**

Enter the amount from Form 140, line 48; or Form 140PY, line 60; or Form 140NR, line 58; or Form 140X, line 36.

**Line 30b -**

Enter the current year’s nonrefundable tax credits from Form 301, Part 1, line 33 excluding the credit or carryovers for increased research activities on Form 301, Part 1, line 5, column (c).

**Line 30c -**

Subtract line 30b from line 30a. Enter the difference. If the difference is zero or more, enter it on Part 9, line 56; also enter it on Form 301, Part 1, line 5, column (a), and Form 301, Part 2, line 48. If the difference is less than zero, enter zero. This is the current year’s credit for increased research activities that will be used to offset the current taxable year’s tax liability.

**Line 31 -**

Subtract the amount on line 30c from line 29. Enter the difference. If the result is less than zero, enter “0”, because no refund is available. This is the current year’s excess credit.

**Line 32 -**

Multiply the amount on line 31 by 75% (.75) and enter the result. This is your tentative refundable credit.

**Maximum Refundable Credit****Line 33a -**

Enter the maximum refundable credit amount authorized by the ACA for the credit you earned from Part 1, line 2a2.

**Line 33b –**

Enter the partner’s or shareholder’s maximum refundable credit amount from Form 308-P, Part 3, line 6, or from Form 308-S, Part 3, line 6. If this credit was passed through to you from more than one partnership and/or S corporation, total the amounts indicated on Form(s) 308-P, Part 3, line 6, and/or Form(s) 308-S, Part 3, line 6. Enter the total amount here.

**Line 33c –**

Add the amounts on line 33a and 33b. Enter the total here.

**Line 34 -**

Enter the lesser of line 32 or line 33c. Complete Part 6 and Part 7 if you have carryovers from prior taxable years.

Enter this amount on Form 140, line 57; or Form 140PY, line 68; or Form 140NR, line 64; or Form 140X, line 43. On the same line, be sure to check box 308-I indicating you are claiming a refundable credit for increased research activities.

**CREDIT CARRYOVERS**

**NOTE:** *If you have credit carryovers from taxable years prior to 2016, complete Part 8 and/or Part 9 (as appropriate). If you are receiving a refund, do not complete Part 10 and/or Part 11 (as appropriate). If you do not have carryovers from taxable years prior to 2016, skip to Part 9.*

*The credit for increased research activities may be carried forward to offset your tax liability of the next fifteen (15) years.*

**Allowable Credit Carryover**

There are limitations on how much of your carryover you can use to offset this year's tax. How much you can use depends on the year from which the carryover arose. In Part 8 you will apply those limitations to determine the proper carryover amounts.

If you have other credits, your usable amount of credit from increased research activities may be limited further. You will be applying these limitations when you complete Form 300, *Nonrefundable Corporate Tax Credits and Recapture*.

**Part 6 - Available Pre-2003 Credit Carryover**

Use Part 6 to compute the carryover of the credit for increased research activities from taxable years beginning January 1, 2001 through December 31, 2002. Since the credit for increased research activities applies only to individuals for taxable years beginning after December 31, 2000, there is no available credit carryover from taxable years beginning prior to January 1, 2001. Compute the total available carryover of the credit for increased research activities on Part 6, lines 35 and 36.

In column (b), enter the credit originally computed for taxable year 2001 and 2002. In column (c), enter the amount of the credit from taxable years 2001 and 2002 which has already been used. Subtract the amount in column (c) from column (b) and enter the difference in column (d). Add the amounts entered on lines 35 and 36 in column (d). Enter the total on line 37, column (d). This is the total credit carryover available for years beginning before January 1, 2003.

**Part 7 - Available Post-2002 Credit Carryover**

Use Part 7 to compute the carryover of the credit for increased research activities from taxable years beginning on or after January 1, 2003.

In column (b), enter the credit originally computed for taxable years 2003 and subsequent years. In column (c), enter the amount that has already been used. Subtract the amount in column (c) from column (b) and enter the difference in column (d). Add the amounts entered on lines 38 through 50 in column (d). Enter the total on line 51, column (d). This is the total credit carryover available for years beginning on or after January 1, 2003.

**REMINDER:** *If you received a refund of this credit for any prior taxable year, no carryover of the credit is available from those years. In this case, enter zero in column (d) for those tax years.*

**Part 8 - Limitation of Credit Carryovers**

Use Part 8 to figure the limitations on use of credit carryovers. Complete lines 52a through 55 if you claimed the credit on a prior year return and the credit was more than your tax.

**NOTE:** *If you completed Part 5 and are receiving a refund, do not complete Part 8.*

*LIMITATION FOR CREDIT CARRYOVERS FROM TAXABLE YEARS BEGINNING JANUARY 1, 2001 THROUGH DECEMBER 31, 2002.* There is an additional limitation on how much you can use of your available credit carryovers included in the amount from Part 6, line 37, column (d). To calculate the limitation, you must first compare the amount of your tax liability with \$500,000, and select the lower of those two numbers. Then, subtract your current year's credit for increased research activities from the number you selected. Use your entire current year's credit for increased research activities for this computation, even if you will not be able to claim that entire amount on your current year's tax return. If the result of your calculation is zero or less, you will not be able to use your credit carryforward from taxable years beginning January 1, 2001 through December 31, 2002, to reduce your current year's tax liability. However, you may still be able to use your credit carryover from 2003 and later.

*LIMITATION FOR CREDIT CARRYOVERS FROM TAXABLE YEARS BEGINNING ON OR AFTER JANUARY 1, 2003.* The amount of credit carryover from taxable years beginning on or after January 1, 2003, is only limited by the amount by which your current year's tax liability exceeds your current year's credit for increased research activities.

**Line 52a -**

Enter your tax liability from Form 301, Part 3, line 41.

**Line 52b -**

Enter the current year's total credit from Part 4, line 28.

**Line 52c -**

Subtract line 52b from line 52a and enter the difference. If the difference is zero or less, enter zero.

**Line 53a -**

Enter your available pre-2003 credit carryover from Part 6, line 37, column (d).

**Line 53b -**

Enter the lesser of the amount on line 52a or \$500,000.

**Line 53c -**

Subtract line 52b from line 53b and enter the difference. If the difference is zero or less, enter "0".

**Line 53d -**

Compare the numbers on lines 53a and 53c, and enter the lowest number here. This is the amount of pre-2003 carryover you may use to reduce your current year's Arizona tax liability.

**Line 54 -**

Subtract line 53d from line 52c and enter the difference.

**Line 55 -**

Compare the amounts on Part 7, line 51, column (d), and on Part 8, line 54, and enter the lowest amount here. This is the amount of post-2002 carryover you may use to reduce your current year's Arizona tax liability.

**Part 9 - Total Available Nonrefundable Credit**

Complete this section to compute the total available credit for the taxable year. The total available credit is the sum of the current taxable year's credit for increased research activities and the available credit carryover(s).

**Line 56 -**

If you completed Part 5 and are receiving a refund, enter the amount from Part 5, line 30c. Otherwise, enter the amount from Part 4, line 28. This is the current taxable year's credit for increased research activities.

**NOTE:** *If you qualify for, and are claiming a 75% refund of your excess credit for the current year, enter only the nonrefundable portion of the current year's credit here (from Form 308-I, Part 5, line 30c). Enter the refundable portion of the credit (the amount from Form 308-I, Part 5, line 34) on Form 140, line 57; or Form 140NR, line 64; or Form 140PY, line 68; or Form 140X, line 43.*

*Carry forwards from previous years of this credit will carry over to the following year, provided this credit is within the 15-year carry forward period.*

*Do not enter any carry over amount(s) on lines 56 or 57.*

**Line 57 -**

If you completed Part 5 and are receiving a refund, enter zero. Otherwise, enter the amount from Part 8, line 53d. This is the amount of the pre-2003 carryover that you may use to reduce your current year's Arizona tax liability. Do not enter any carryover amount here.

**Line 58 -**

If you completed Part 5 and are receiving a refund, enter zero. Otherwise, enter the amount from Part 8, line 55. This is the amount of the post-2002 carryover that you may use to reduce your current year's Arizona tax liability. Do not enter any carryover amount here.

**Line 59 -**

Add the amounts on lines 56, 57, and 58. This is the total available credit for increased research activities that may be applied to your current taxable year's tax liability. Enter the total here and on Arizona Form 301, Part 1, line 5, column (c).