

2015 Solar Liquid Fuel Credit

Obtain additional information or assistance by calling one of the numbers listed below:

Phoenix (602) 255-3381
From area codes 520 and 928, toll-free (800) 352-4090

Obtain tax rulings, tax procedures, tax forms and instructions, and other tax information by accessing the department's website at www.azdor.gov

General Instructions

Arizona Revised Statutes (A.R.S.) §§ 43-1085.01 and 43-1164.02 provide nonrefundable individual and corporate income tax credits for increased research activities related to solar liquid fuel. This credit is allowed for taxable years beginning from and after December 31, 2010 through December 31, 2021.

Additional credits related to solar liquid fuel will become available in 2016 for production and delivery system costs.

"Solar liquid fuel" means liquid fuel that is generated through processes that use sunlight, carbon dioxide and water to produce infrastructure compatible liquid hydrocarbon fuels.

Co-owners of a business, including partners in a partnership and shareholders of an S corporation, may each claim only the pro rata share of the credit allowed based on the ownership interest. The total of the credits allowed all such owners may not exceed the amount that would have been allowed for a sole owner of the business.

The credit is available to an exempt organization that is subject to corporate income tax on unrelated business taxable income (UBTI). The credit must result from the activities that generate UBTI.

There is no carry forward for the solar liquid fuel credit. This credit must be used on the tax return filed for the taxable year in which the research was conducted.

The solar liquid fuel credit is in lieu of the following credits, with respect to the same expenses.

- The credit for increased research activities under A.R.S. §§ 43-1074.01 or 43-1168 (claimed on Arizona Form 308-I or Form 308); and
- The credit for increased research activities for basic research payments, under A.R.S. § 43-1074(A)(1)(d) or A.R.S. § 43-1168 (A)(1)(c) (claimed on Arizona Form 346).

The Arizona solar liquid fuel credit related to increased research is allowed in an amount computed pursuant to Internal Revenue Code (IRC) § 41 with the following exceptions:

- Qualified research includes only research related to solar liquid fuel 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 40 percent of the excess, if any, of the Arizona qualified research expenses for the taxable year, over the base amount.

Specific Instructions

Complete the name and taxpayer identification 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 a corporation, an exempt organization with UBTI, an S corporation or a partnership is the taxpayer's employer identification number. 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 - Current Taxable Year's Credit Calculation

Line 1 -

Enter total wages paid or incurred for qualified services performed in Arizona. Do not include the amount of such wages paid to employees that were used in the calculation of the federal work opportunity credit. Wages include any wages paid or incurred to an employee for qualified services performed by such employee. Qualified services consist of engaging in qualified research or engaging in the direct supervision or direct support of research activities that constitute qualified research.

Line 2 -

Enter the cost of supplies paid or incurred for use in the conduct of 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 3 -

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

Line 4 -

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 the taxpayer'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 the taxpayer'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.

Line 6 -

Enter the amount of expenses included on lines 1 through 4 that are related to solar liquid fuel that will be claimed on Arizona Form 308, Arizona Form 308-I or Arizona Form 346. The solar liquid fuel credit is in lieu of these credits with respect to the same expenses.

Line 8 -

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). The taxpayer may be required to annualize gross receipts for any short taxable year.

If 2014 is the first year the taxpayer is in business, the average annual Arizona gross receipts for the preceding taxable years is zero. If the taxpayer has 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 2012. Its annual Arizona gross receipts for 2012 were \$100,000. Its annual Arizona gross receipts for 2013 were \$200,000. Therefore, ABC Corporation's average annual Arizona gross receipts for the 2014 credit year is \$150,000 ([\$100,000 plus \$200,000] divided by 2).

Line 9 -

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, albeit 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.

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 9 is 16 percent (.1600).

Line 12 -

Multiply line 7 by 50% (.50). The base amount cannot be less than 50 percent of the current year qualified research expenses. This rule applies to both existing and start-up companies.

Line 14 -

Compute the amount of current year's credit by multiplying the amount on line 13 by 40 percent (.40).

Part 2 - S Corporation Credit Election and Shareholder's Share of Credit

Line 15 - S Corporation Credit Election

S corporations must complete line 15. The S corporation must make an irrevocable election to either claim the current taxable year credit or pass the credit through to its shareholders. The election statement must be signed by one of the officers of the S corporation who is also a signatory to Arizona Form 120S. If the S corporation elects to claim the credit itself, it can skip lines 16 through 18 and complete Part 4.

Lines 16 through 18 -

If an S corporation elects to pass the credit through to its shareholders, it must also complete lines 16 through 18.

After the S corporation completes Part 1, it must complete Part 2, lines 16 through 18, separately for each shareholder.

The S corporation must furnish each shareholder with a copy of Form 344. Each shareholder must complete Part 4.

NOTE: Taxpayers who are partners or shareholders in multiple entities receiving the solar liquid fuel tax credit must create a schedule detailing the amount of the credit passed through from each partnership or S corporation, and include the schedule with their tax returns.

Part 3 - Partner's Share of Credit

Lines 19 through 21 -

After a partnership completes Part 1, it must complete Part 3, lines 19 through 21, separately for each partner. The partnership must furnish each partner with a copy of Form 344. Each partner must complete Part 4.

NOTE: Taxpayers who are partners or shareholders in multiple entities receiving the solar liquid fuel tax credit must create a schedule detailing the amount of the credit passed through from each partnership or S corporation, and include the schedule with their tax returns.

Part 4 - Total Available Credit

Line 22 -

Individuals, corporations, exempt organizations with UBTI, and S corporations claiming the credit - enter the amount from Part 1, line 14.

S corporation shareholders - enter the amount from Part 2, line 18.

Partners of a partnership - enter the amount from Part 3, line 21.

This is the current taxable year's solar liquid fuel credit that may be applied to the current year's tax liability.

Corporations, exempt organizations with UBTI, and S corporations - enter this amount on Form 300, Part 1, line 19, column (a).

Individuals - enter this amount on Form 301, Part 1, line 27, column (a).