

2017 Additional Credit for Increased Research Activities for Basic Research Payments

CONTACTS FOR FURTHER INFORMATION REGARDING THE ADDITIONAL CREDIT FOR INCREASED RESEARCH ACTIVITIES FOR BASIC RESEARCH PAYMENTS

Arizona Commerce Authority

Website: www.azcommerce.com

Program Manager (602) 845-1200

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

Arizona Revised Statutes §§ 43-1074.01(A)(1)(c) and 43-1168(A)(1)(d) provide an additional income tax credit for increased research activities for basic research payments made to a university under the jurisdiction of the Arizona Board of Regents.

You may be eligible for this credit if you made cash payments in excess of your base period amount to a qualified Arizona university for research conducted in Arizona.

This credit is available to:

- Individuals,
- Corporations,
- Exempt organizations with unrelated business taxable income (UBTI),
- S corporations using this credit to offset tax incurred at the corporate level.
- S corporations or partnerships may pass the credit through to their shareholders or partners.

NOTE: For an exempt organization to claim this credit against its UBTI, the credit must result from the activities generating UBTI.

CLAIMING THE CREDIT

To claim this credit, the taxpayer must first apply for certification from the Arizona Commerce Authority (ACA) that the taxpayer's basic research payments meet the requirements established by statute. Once the taxpayer receives certification from the ACA, the taxpayer then applies to the Arizona Department of Revenue (Revenue) for determination of the amount of the credit the taxpayer is eligible to claim.

IMPORTANT INFORMATION/CREDIT SUMMARY

- The credit is limited to \$10 million in total credits in a calendar year.
- This credit is in addition to the credit for increased research activities:
 - Claimed by corporations on Arizona Form 308;
 - Claimed by individuals on Arizona Form 308-I.
- This tax credit is allowed in an amount computed pursuant to Internal Revenue Code (IRC) § 41(e), except for:
 - Only basic research payments [defined in IRC § 41(e)] which are made to a university under the jurisdiction of the Arizona Board of Regents are included.

- The taxpayer must make basic research payments during the taxable year to a university under the jurisdiction of the Arizona Board of Regents, for research completed by the same university.
- The terms "basic research payments" and "qualified organization base period amount" have the same meanings prescribed by IRC § 41(e), without regard to whether the taxpayer is, or is not, a corporation.
- The amount of the credit is based on the federal regular credit computation method for basic research payments. Taxpayers cannot use the federal alternative credit computation method. The allowable current taxable year credit is 10% of the excess, if any, of the basic research payments over the qualified organization base period amount for the taxable year.
- 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.
 - The termination provisions of IRC § 41 do not apply.
- If the current taxable year's credit exceeds the taxpayer's tax liability for the taxable year, the taxpayer may carry forward the unused credit to the next five consecutive taxable years.
- This credit is in lieu of the credit for solar liquid fuel claimed on Arizona Form 344.
- **This credit is not refundable.**

CORPORATE TAXPAYERS: If two or more members of a unitary group, or an Arizona affiliated group incur qualifying basic research payments, the individual members of the group are not considered separate taxpayers. When a combined return, or a consolidated return is filed, the unitary group, or the Arizona affiliated group is considered a single taxpayer.

Specific Instructions

Complete the name and taxpayer identification number (TIN) section at the top of the form. Indicate the period covered by the taxable year. Include the completed form with the tax return.

NOTE:

- All returns, statements, or other documents filed with the department must have the taxpayer's Employer Identification Number (EIN) or TIN indicated on them.
- Taxpayers who fail to include their EIN or TIN may be subject to a penalty.

NOTE – To claim this credit:

- **Individual taxpayers,** complete this credit form and Arizona Form 301, Nonrefundable Individual Tax Credits and Recapture. Include both completed forms with your tax return.
- **C corporations, S corporations claiming this credit at the corporate level, and exempt organizations with UBTI,** complete this credit form and Arizona Form 300, Nonrefundable Corporate Tax Credits and Recapture. Include both completed forms with your tax return.
- **S corporations electing to pass this credit through to its shareholders,** complete this credit form and Arizona Form 300, Nonrefundable Corporate Tax Credits and Recapture. Also, complete Form 346-S for each shareholder of the S corporation. Provide each shareholder a copy of his or her

completed Form 346-S. Include Form 300, Form 346, and one copy of each completed Form 346-S with your tax return.

- **Partnerships**, complete this credit form. Also, complete Form 346-P for each partner of the partnership. Provide each partner a copy of his or her completed Form 346-P. Include Form 346 and one copy of each completed Form 346-P with your tax return.

Part 1 - Qualification for Additional Credit

Line 1 -

If you received a letter of approval from Revenue for this credit, check the "Yes" box. If you did not, check the "No" box and skip line 2.

Line 2 -

If you checked the "Yes" box on line 1, enter the credit amount shown on your Letter of Approval from Revenue for taxable year 2017.

Line 3 -

If you received a pass through of this credit from a partnership or S corporation on Form 346-P or Form 346-S, check the "Yes" box and include a copy of each form you received. If you did not, check the "No" box.

Line 4 -

If you answered "Yes" to the question on line 1 and/or the question on line 3, go to Part 2. Otherwise, go to line 5.

Line 5 -

If you answered "No" to the question on line 1 and to the question on line 3, **STOP! YOU ARE NOT ELIGIBLE TO CLAIM THIS CREDIT.**

Part 2 - Current Taxable Year's Credit Calculation

Portion Earned by the Taxpayer

Line 6 -

Enter the basic research payments paid to qualified organizations.

Taxpayers may be eligible for an additional credit for basic research if their payments made in cash to a qualified university under the jurisdiction of the Arizona Board of Regents (pursuant to a written contract) for research conducted in Arizona exceeds their base period amount.

Line 7 -

Enter the qualified organization base period amount as defined by IRC § 41(e) that is based on qualified basic research payments.

NOTE: *The amount on line 7 (but not more than the amount on line 6), although not eligible for the additional basic research credit, may be eligible for the basic research credit for corporations on Form 308 and may be eligible to be treated as contract research expenses on Form 308 or Form 308-I.*

Line 8 -

If line 6 is greater than line 7, subtract line 7 from line 6 and enter the difference. If line 7 is greater than line 6, enter "0".

Line 9 -

Enter the lesser of 10% of line 8 or the amount on line 2.

Portion Passed Through From Partnerships or S Corporations

NOTE: *If you received a pass through of this credit from more than one partnership and/or S corporation, total the amounts received from all Form(s) 346-P and/or Form(s) 346-S on a separate schedule and include it with this form. Include a copy of each Form 346-P and/or Form 346-S as well as copies of each Letter of Approval you received with your return.*

Line 10 -

Enter the total amount of this credit passed through from partnerships on Form 346-P, Part 2, line 4

Line 11 -

Enter the total amount of this credit passed through from S corporations on Form 346-S, Part 2, line 4.

Part 3 – Total Current Year’s Credit

Line 12 -

Add the amounts on lines 9 through 11. Enter the total. This is your total current year additional credit for increased research activities for basic research payments.

Part 4 - Partnerships

A partnership claiming this credit *must* pass it through to its partners. Skip to the instructions for completing Form 346-P on page 4.

- Complete Form 346-P for each partner.
- Provide a completed copy of Form 346-P to each partner.
- Provide a copy of the Certificate of Renewable Energy Production Tax Credit received from Commerce to each partner.
- Include a copy of each completed Form 346-P with your tax return.
- Keep a copy of each completed Form 346-P for your records.
- Do not complete the remainder of this form.

Each partner is entitled to only a *pro rata* share of each credit based on the partner’s ownership interest in the partnership. The total of each credit allowed to all partners may not exceed the amount that would have been allowed for a sole owner.

NOTE: *Trusts and estates that are partners in a partnership are not eligible to claim this credit. However, the share of a partnership owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of the credit.*

Part 5 - S Corporation Credit Election and Shareholder’s Share of the Credit

Lines 13, 13a, & 13b – S Corporation Credit Election

The S corporation must complete line 13 and line 13a or line 13b. The S corporation must make an irrevocable election either to claim the current taxable year credit at the corporate level or to pass the credit through to its shareholders. The S corporation election is made by:

- Entering the date the S corporation taxable year ends.
- Checking the box on line 13a electing to claim the current taxable year credit at the corporate level; or,
- Checking the box on line 13b electing to pass the current taxable year credit through to its shareholders.

- The election statement must be signed by an officer of the S corporation who is also a signatory to Form 120S.

If the S corporation elects to claim the credit at the corporate level, continue to Part 6.

If the S corporation elects to pass this credit through to its shareholders, proceed to the instructions for completing Form 346-S on page 4.

If passing this credit through to the shareholders:

- Complete Form 346-S for each shareholder.
- Provide a copy of completed Form 346-S to each shareholder.
- Include a copy of each completed Form 346-S with your tax return.
- Keep a copy of each completed Form 346-S for your records.

Each S corporation shareholder is entitled to only a *pro rata* share of pass-through credit based on ownership interest in the S corporation. The total of the credit allowed to all shareholders may not exceed the amount that would have been allowed for a sole owner.

NOTE: *Trusts and estates that are shareholders of an S corporation are not eligible to claim these credits. However, the share of an S corporation owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of these credits.*

Part 6 – Available Credit Carryover

S corporations, if this credit was claimed at the corporate level in a prior taxable year and there is a carryover amount available, complete Part 6.

Lines 14 through 18

The unused additional credit for increased research activities for basic research payments may be carried forward to the next five consecutive taxable years.

Use Part 6 to calculate the available credit carryover. Complete lines 14 through 18 if you claimed the additional credit on a prior year return and your credit was more than your tax.

If you claimed this credit on a prior year income tax return and your credit was more than your tax, enter this information in the columns provided for lines 14 through 18:

- (a) Taxable year from which you are carrying over the additional credit.
- (b) The amount of the credit originally computed for that taxable year.
- (c) The amount of the credit from that taxable year you have already used.
- (d) Subtract the amount in column (c) from the amount in column (b) and enter the difference.

Line 19 -

Add the amounts entered on lines 14 through 18 in column (d). Enter the total. This is the available credit carryover available for the current taxable year.

Part 7 – Total Additional Available Credit for Increased Research Activities for Basic Research Payments

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

Line 20 -

Enter the additional credit for the current taxable year.

Individuals, C corporations, S corporations that elected to claim the credit at the corporate level, and exempt organizations with UBTI - enter the amount from Part 3, line 12.

Partnerships, enter "0".

S corporations that elected to pass the current year credit through to its shareholders, enter "0".

Individuals - enter the total available credit on Arizona Form 301, Part 1, line 27, column (a).

C corporations, including S corporations that elected to claim this credit at the corporate level, and exempt organizations with UBTI - enter the total available credit on Arizona Form 300, Part 1, line 21, column (a).

Line 21 -

Individuals, C corporations, S corporations that elected to claim the credit at the corporate level, and exempt organizations with UBTI - enter the credit carryover amount from Part 6, line 19, column (d).

Individuals - enter the total available credit on Arizona Form 301, Part 1, line 27, column (b).

C corporations, S corporations that elected to claim this credit at the corporate level, and exempt organizations with UBTI - enter the total available credit on Arizona Form 300, Part 1, line 21, column (b).

Line 22 -

Individuals, C corporations, S corporations that elected to claim the credit at the corporate level, and exempt organizations with UBTI - add line 20 and line 21. Enter the total. This is the total available additional credit for increased research activities for basic research payments that may be applied to the current taxable year's tax liability.

Individuals - enter the total available credit on Arizona Form 301, Part 1, line 27, column (c).

C corporations, S corporations that elected to claim this credit at the corporate level, and exempt organizations with UBTI - enter the total available credit on Arizona Form 300, Part 1, line 21, column (c).

Form 346-P, Partner's Portion of the Credit

Enter the taxable year from which this credit is being passed through to your partners.

Complete a separate Form 346-P for each partner of the partnership, *except for* trust or estate partners. However, a partnership ownership share that is owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of the credit.

The partnership must furnish each partner with their completed copy of Form 346-P, including additional schedules as needed.

Part 1 – Partnership and Partner Information

Line 1 –

Enter the partnership name and EIN in the spaces provided.

Line 2 –

Enter the partner's name, EIN, TIN, or Social Security Number (SSN), and proportionate share of the credit in the spaces provided.

Part 2 – Distribution of the Credit Passed Through

Line 3 –

Enter the total amount of the partnership's credit for increased research and development from Form 346, Part 3, line 12.

Line 4 –

Multiply line 3 by the percentage reported on line 2, column (c). Enter the result. This is the partner's proportionate share of the credit.

Each partner will use this form to complete his or her own Form 346.

Form 346-S, S Corporation Shareholder's Portion of the Credit

Enter the taxable year from which this credit is being passed through to your shareholders.

Complete a separate Form 346-S for each shareholder of the S corporation, *except for* trust or estate partners. However, an S corporation ownership share that is owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of the credit.

The S corporation must furnish each shareholder with his or her completed copy of Form 346-S, including additional schedules as needed.

Part 1 - S corporation and Shareholder Information

Line 1 –

Enter the S corporation name and EIN in the spaces provided.

Line 2 –

Enter the shareholder's name, EIN, TIN, or SSN, and proportionate share of the credit in the spaces provided.

Part 2 – Distribution of the Credit Passed Through

Line 3 –

Enter the total amount of the S corporation's credit for increased research and development on Form 346, Part 3, line 12.

Line 4 –

Multiply line 3 by the percentage reported on line 2, column (c). Enter the result. This is the shareholder's proportionate share of the credit.

The shareholder will use this form to complete his or her own Form 346.