

2015 Additional Credit for Increased Research Activities for Basic Research Payments

CONTACTS FOR ADDITIONAL CREDIT FOR INCREASED RESEARCH ACTIVITIES FOR BASIC RESEARCH PAYMENTS

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 (A.R.S.) §§ 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. The credit is available to individuals and corporations for taxable years beginning from and after December 31, 2011.

This credit is available to individuals, corporations, exempt organizations with unrelated business taxable income (UBTI), and S corporations using the credit to offset tax incurred at the corporate level. S corporations or partnerships may pass the credit through to their shareholders or partners.

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

Taxpayers must be certified by the Arizona Department of Revenue (Revenue) before claiming the credit. The credit is limited to \$10 million in total credits in a calendar year. Visit the department's Tax Credit web page for information on the application process or to obtain an application: www.azdor.gov/taxcredits.aspx.

The additional credit for increased research activities for basic research payments is in addition to the credit for increased research activities, claimed on Arizona Form 308 for corporations or Arizona Form 308-I for individuals, with respect to the same basic research payments.

The additional credit for increased research activities for basic research payments is in lieu of the solar liquid fuel credit under A.R.S. §§ 43-1081.01 or 43-1164.02 (claimed on Arizona Form 344) with respect to the same basic research payments.

The additional tax credit is allowed in an amount computed pursuant to Internal Revenue Code (IRC) § 41(e) with the following exceptions:

- For purposes of the additional Arizona tax credit, only basic research payments, as 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.

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.

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. The credit is not refundable.

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 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 - Qualification for Additional Credit

Line 1 -

If the taxpayer applied to Revenue and received a Letter of Approval related to the additional credit for increased research activities for basic research payments, check the "Yes" box. Otherwise, check the "No" box and skip line 2.

Line 2 -

If you checked the "Yes" box on line 1, enter the credit amount on your Letter of Approval from Revenue for taxable year 2015.

Line 3 -

If an entity from which you are claiming a pass through credit applied to Revenue and received a Letter of Approval related to the additional credit for increased research activities for basic research payments, check the "Yes" box. Otherwise, check the "No" box and skip lines 4 and 5.

Line 4 -

If you checked the "Yes" box on line 3, enter the entity's name and taxpayer identification number on the entity's Letter of Approval from Revenue for taxable year 2015.

Line 5 -

If you checked the "Yes" box on line 3, enter your share of the credit amount on the entity's Letter of Approval from Revenue for taxable year 2015.

Part 2 - Current Taxable Year's Credit Calculation**Line 6 -**

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 a base period amount. Enter the amount of such payments on line 6.

Line 7 -

Enter the qualified organization base period amount as defined by IRC §41(e) that is based on qualified basic research payments. 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 9 -

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

Part 3 - Current Taxable Year's Credit Passed Through From Partnerships and S Corporations**Line 10 -**

Enter the total amount of credit(s) passed through from partnership(s) and/or S corporation(s). Include a copy of Form(s) 346 and the Letter(s) of Approval received from partnership(s) and/or S corporation(s). The amount on line 10 cannot exceed the amount on line 5.

Line 11 -

Enter the total of lines 9 and 10. This is your total additional credit for increased research activities for basic research payments.

Part 4 - S Corporation Credit Election and Shareholder's Share of Credit**Line 12 - S Corporation Credit Election**

S corporations must complete line 12. The S corporation must make an irrevocable election to either claim the current taxable year's 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 13 through 17 and complete Part 6 and Part 7, as applicable.

Lines 13 through 17 -

If an S corporation elects to pass the credit through to its shareholders, it must also complete lines 13 through 15.

After the S corporation completes Parts 1, 2 and 3, it must complete Part 4, lines 13 through 15, separately for each shareholder. The S corporation may also have to complete line 16 or line 17, as applicable, separately for each shareholder. The S corporation must furnish each shareholder with a copy of pages 1 and 2 of Form 346 and the Letter of Approval. Each shareholder would complete Part 6 and Part 7, as applicable.

Part 5 - Partner's Share of Credit**Lines 18 through 22 -**

After a partnership completes Parts 1, 2 and 3, it must complete Part 5, lines 18 through 20, separately for each partner. The partnership may also have to complete line 21 or line 22, as applicable, separately for each partner. The partnership must furnish each partner with a copy of pages 1 and 2 of Form 346 and the Letter of Approval. Each partner would complete Part 6 and Part 7, as applicable.

Part 6 - Available Credit Carryover

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 23 through 28 if you claimed the additional credit on a prior year return and your credit was more than your tax.

Enter the taxable year(s) from which you are carrying over the additional credit in column (a) on lines 23 through 27. In column (b), enter the credit originally computed for that taxable year. In column (c), enter the amount of the credit from that taxable year which you have already used. Subtract the amount in column (c) from the amount in column (b) and enter the difference in column (d). Add the amounts entered on lines 23 through 27 in column (d). Enter the total on line 28, column (d). This is the available credit carryover available for the current taxable year.

Part 7 - Total Available Additional Credit

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 29 -

Enter the additional credit for the current taxable year.

Corporations (including S corporations that elected to claim the credit) and exempt organizations with UBTI - enter the amount from Part 3, line 11.

S corporation shareholders - enter the amount from Part 4, line 15.

Partners of a partnership - enter the amount from Part 5, line 20.

Line 30 -

Enter the credit carryover amount from Part 6, line 28, column (d).

Line 31 -

Add the amounts from line 29 and line 30. 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. Enter the total here.

Corporations, exempt organizations with UBTI, and S corporations - enter the total available credit on Arizona Form 300, Part 1, line 21, column (c).

Individuals - enter the total available credit on Arizona Form 301, Part 1, line 29, column (c).