

Investment in Qualified Small Business Credit

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This publication is designed to provide general information with respect to the individual income tax credit for investment made in qualified small businesses. For complete details, refer to the Arizona Revised Statute (A.R.S.) § 43-1074.02. In case of inconsistency or omission in this publication, the language of the Arizona Revised Statutes will prevail.

Q1. Who is eligible for the credit for investment in qualified small businesses?

A1. A taxpayer that has invested in qualified small businesses in an amount determined and authorized by the Arizona Commerce Authority (Commerce). The investment in the qualified small business is made prior to application with Commerce.

This credit is available to individuals only. A corporation, S corporation, or Partnership that invested in a qualified small business may not claim this credit on its own tax return. However, an S corporation may pass this credit through to its individual shareholders. A partnership may pass the credit through to its individual partners.

Q2. What is a qualified small business?

A2. A qualified small business means a corporation, limited liability company, partnership or other business entity that has at least two full-time equivalent employees who are Arizona residents and whose sole responsibilities are not administrative and that maintains at least a portion of its operations at an office or manufacturing or research facility located in Arizona. The qualified small business may not have a principal business involving (1) sales or distribution or retail goods or food or restaurant services, (2) development, sale, leasing, rental or operation of or investment in, real estate, (3) providing professional services except for the professional services for hardware or software licensed or sold by the provider of such services, (4) providing health care services to patients, except for services provided in connection with research, development, clinical trials and marketing activities by bioscience enterprises, (5) providing banking, brokerage, insurance or other financial or investment

services, (6) providing personal services, (7) operating mining, forestry and other natural resource exploitation or extraction businesses, except for research and development in these businesses, (8) agricultural operations, except for research and development in these businesses, (9) operating an investment company or fund, or (10) any other business activity that the Department of Commerce determines to be outside the purpose of this section. The qualified small business may not engage in any activities that involve human cloning or embryonic stem cell research. The qualified small business may not have total assets exceeding \$2 million.

Q3. What is the amount of the credit for investment in qualified small businesses?

A3. If the qualified investment is made in a qualified small business that maintains its principal place of business in a rural county in Arizona OR is a bioscience enterprise, the credit is equal to 12% of the investment amount per year for the first and second taxable years after the investment is made and 11% of the investment amount for the third taxable year after the year in which the investment is made.

If the qualified investment is made in a qualified small business other than a business described in the preceding paragraph, the credit is equal to 10% of the amount of the investment for each of the three taxable years after the year in which the investment is made.

However, there is an aggregate limitation on the amount of tax credits that can be approved by the Commerce.

Q4. What is a rural county?

A4. A rural county is a county with a population of 400,000 or fewer persons.

Q5. What are the effective dates of the credit?

A5. The credit for investment in qualified small businesses is effective for taxable years beginning from and after December 31, 2006 through December 31, 2024.

Q6. How does the taxpayer claim this credit?

A6. To claim this credit, the taxpayer completes Arizona Form 338 and includes the form with the individual’s tax return when filed.

Partnerships passing this credit through to its partners must complete Form 338 and Form 338-P for each partner receiving a pass-through credit.

Include a copy of all forms with the partnership return when filed.

S corporations passing this credit through to its shareholders must complete Form 338 and Form 338-S for each shareholder receiving a pass-through credit when filed. Include a copy of all forms with the S corporation return when filed.

The credit forms are available on the department’s website at www.azdor.gov/forms/tax-credits-forms.

Q7. What if the taxpayer cannot use all the credit authorized for the tax year in the tax year?

A7. If the allowable tax credit exceeds the taxes due, the amount of the credit not used to offset the taxes may be carried forward for three consecutive taxable years.

Q8. Can an investor subtract the amount of any net capital gain from the investment that is included in federal adjusted gross income for the taxable year?

A8. Yes, an individual may subtract from the investor’s Arizona gross income the amount of any net capital gain included in the federal adjusted gross income for the tax year that is derived from investment in a business qualified by Commerce pursuant to A.R.S. §43-1022.

Q9. Can a taxpayer also take the allowable subtraction for the amount of any net long-term capital gain derived from an investment made after December 31, 2011 to a qualified small business?

A9. No, if the taxpayer takes the allowable subtraction from Arizona gross income for the net capital gain from the sale of a stock in a qualified small business included in the federal adjusted gross income for the taxable year, the taxpayer cannot take an additional subtraction for any of the net long-term capital gain from the sale of the same assets because they were acquired after December 31, 2011.

Q10. Does claiming this credit have an effect on the computation of the investment’s basis?

A10. Yes, the basis of any investment with respect to which the taxpayer has claimed a credit shall be reduced by the amount of the credit claimed.

For More Information about the credit, visit the Arizona Commerce’s website at:
www.azcommerce.com/incentives/angel-investment

OR

For Additional Information, call:

Phoenix(602) 255-3381
Toll free from area codes 520 & 928(800) 352-4090

Or Write to:

Arizona Department of Revenue
Taxpayer Information & Assistance
1600 W Monroe
Phoenix AZ 85007

For Related Tax Information:

Internet..... www.azdor.gov

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