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Senate Engrossed

State of Arizona
Senate
Forty-seventh Legislature
First Regular Session
2005

SENATE BILL 1388

AN ACT

AMENDING SECTIONS 43-1074.01 AND 43-1168, ARIZONA REVISED STATUTES; RELATING TO INCOME TAX CREDITS.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 43-1074.01, Arizona Revised Statutes, is amended to
3 read:

4 43-1074.01. Credit for increased research activities

5 A. A credit is allowed against the taxes imposed by this title in an
6 amount determined pursuant to section 41 of the internal revenue code, except
7 that:

8 1. The amount of the credit is based on the excess, if any, of the
9 qualified research expenses for the taxable year over the base amount as
10 defined in section 41(c) of the internal revenue code and is computed as
11 follows:

12 (a) If the excess is two million five hundred thousand dollars or
13 less, the credit is equal to twenty per cent of that amount.

14 (b) If the excess is over two million five hundred thousand dollars,
15 the credit is equal to five hundred thousand dollars plus ~~eleven~~ TWENTY per
16 cent of any amount exceeding two million five hundred thousand dollars,
17 except that:

18 (i) For taxable years beginning from and after December 31, 2000
19 through December 31, 2001, the credit shall not exceed one million five
20 hundred thousand dollars.

21 (ii) For taxable years beginning from and after December 31, 2001
22 through December 31, 2002, the credit shall not exceed two million five
23 hundred thousand dollars.

24 2. Qualified research includes only research conducted in this state
25 including research conducted at a university in this state and paid for by
26 the taxpayer.

27 3. If two or more taxpayers, including partners in a partnership and
28 shareholders of an S corporation, as defined in section 1361 of the internal
29 revenue code, share in the eligible expenses, each taxpayer is eligible to
30 receive a proportionate share of the credit.

31 4. The credit under this section applies only to expenses incurred
32 from and after December 31, 2000.

33 5. The termination provisions of section 41 of the internal revenue
34 code do not apply.

35 B. If the allowable credit under this section exceeds the taxes
36 otherwise due under this title on the claimant's income, or if there are no
37 taxes due under this title, the amount of the credit not used to offset taxes
38 may be carried forward to the next fifteen consecutive taxable years. The
39 amount of credit carryforward from taxable years beginning from and after
40 December 31, 2000 through December 31, 2002 that may be used in any taxable
41 year may not exceed the taxpayer's tax liability under this title or five
42 hundred thousand dollars, whichever is less, minus the credit under this
43 section for the current taxable year's qualified research expenses. The
44 amount of credit carryforward from taxable years beginning from and after
45 December 31, 2002 that may be used in any taxable year may not exceed the

1 taxpayer's tax liability under this title minus the credit under this section
2 for the current taxable year's qualified research expenses.

3 Sec. 2. Section 43-1168, Arizona Revised Statutes, is amended to read:
4 43-1168. Credit for increased research activities

5 A. A credit is allowed against the taxes imposed by this title in an
6 amount determined pursuant to section 41 of the internal revenue code, except
7 that:

8 1. The amount of the credit is computed as follows:

9 (a) Add:

10 (i) The excess, if any, of the qualified research expenses for the
11 taxable year over the base amount as defined in section 41(c) of the internal
12 revenue code.

13 (ii) The basic research payments determined under section 41(e)(1)(A)
14 of the internal revenue code.

15 (b) If the sum computed under subdivision (a) is two million five
16 hundred thousand dollars or less, the credit is equal to twenty per cent of
17 that amount.

18 (c) If the sum computed under subdivision (a) is over two million five
19 hundred thousand dollars, the credit is equal to five hundred thousand
20 dollars plus ~~eleven~~ TWENTY per cent of any amount exceeding two million five
21 hundred thousand dollars, except that:

22 (i) For taxable years beginning from and after December 31, 2000
23 through December 31, 2001, the credit shall not exceed one million five
24 hundred thousand dollars.

25 (ii) For taxable years beginning from and after December 31, 2001
26 through December 31, 2002, the credit shall not exceed two million five
27 hundred thousand dollars.

28 2. Qualified research includes only research conducted in this state
29 including research conducted at a university in this state and paid for by
30 the taxpayer.

31 3. If two or more taxpayers, including corporate partners in a
32 partnership, share in the eligible expenses, each taxpayer is eligible to
33 receive a proportionate share of the credit.

34 4. The credit under this section applies only to expenses incurred
35 from and after December 31, 1993.

36 5. The termination provisions of section 41 of the internal revenue
37 code do not apply.

38 B. If the allowable credit under this section exceeds the taxes
39 otherwise due under this title on the claimant's income, or if there are no
40 taxes due under this title, the amount of the credit not used to offset taxes
41 may be carried forward to the next fifteen consecutive taxable years. The
42 amount of credit carryforward from taxable years beginning from and after
43 December 31, 2000 through December 31, 2002 that may be used under this
44 subsection in any taxable year may not exceed the taxpayer's tax liability
45 under this title or five hundred thousand dollars, whichever is less, minus
46 the credit under this section for the current taxable year's qualified

1 research expenses. The amount of credit carryforward from taxable years
2 beginning from and after December 31, 2002 that may be used under this
3 subsection in any taxable year may not exceed the taxpayer's tax liability
4 under this title minus the credit under this section for the current taxable
5 year's qualified research expenses.

6 C. If a taxpayer has qualified research expenses that are carried
7 forward from taxable years beginning before January 1, 2001, the amount of
8 the expenses carried forward shall be converted to a credit carryforward by
9 multiplying the amount of the qualified expenses carried forward by twenty
10 per cent. A credit carryforward determined under this subsection may be
11 carried forward to not more than fifteen years from the year in which the
12 expenses were incurred. The amount of credit carryforward from taxable years
13 beginning before January 1, 2001 that may be used under this subsection in
14 any taxable year may not exceed the taxpayer's tax liability under this title
15 or five hundred thousand dollars, whichever is less, minus the credit under
16 this section for the current taxable year's qualified research expenses. The
17 total amount of credit carryforward from taxable years beginning before
18 January 1, 2003 that may be used in any taxable year under the provisions of
19 subsection B and this subsection may not exceed the taxpayer's tax liability
20 under this title or five hundred thousand dollars, whichever is less, minus
21 the credit under this section for the current taxable year's qualified
22 research expenses.