

State of Arizona  
House of Representatives  
Fifty-first Legislature  
Second Regular Session  
2014

**CHAPTER 168**  
**HOUSE BILL 2272**

AN ACT

AMENDING SECTION 20-224.03, ARIZONA REVISED STATUTES; AMENDING TITLE 41, CHAPTER 10, ARTICLE 1, ARIZONA REVISED STATUTES, BY ADDING SECTION 41-1507.01; AMENDING SECTIONS 41-1518 AND 43-1074, ARIZONA REVISED STATUTES; AMENDING SECTION 43-1074.01, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2012, CHAPTER 3, SECTION 46 AND CHAPTER 170, SECTION 58; AMENDING SECTION 43-1074.01, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2012, CHAPTER 3, SECTION 47; AMENDING SECTIONS 43-1074.02 AND 43-1161, ARIZONA REVISED STATUTES; AMENDING SECTION 43-1168, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2012, CHAPTER 3, SECTION 53 AND CHAPTER 170, SECTION 73; AMENDING SECTION 43-1168, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2012, CHAPTER 3, SECTION 54; RELATING TO 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 20-224.03, Arizona Revised Statutes, is amended to  
3 read:

4 20-224.03. Premium tax credit for new employment

5 A. For taxable years beginning from and after June 30, 2011 through  
6 December 31, 2019, a credit is allowed against the premium tax liability  
7 imposed pursuant to section 20-224, 20-837, 20-1010, 20-1060 or 20-1097.07  
8 for net increases in full-time employees residing in this state and hired in  
9 qualified employment positions in this state as computed and certified by the  
10 Arizona commerce authority pursuant to section 41-1525. A tax credit is not  
11 allowed against the portion of the tax payable to the fire fighters' relief  
12 and pension fund pursuant to section 20-224 or the portion of the tax payable  
13 to the public safety personnel retirement system pursuant to section  
14 20-224.01.

15 B. Subject to subsection F of this section, the amount of the tax  
16 credit is equal to:

17 1. Three thousand dollars for each full-time employee hired in a  
18 qualified employment position in the first year or partial year of  
19 employment. Employees hired in the last ninety days of the taxable year are  
20 excluded for that taxable year and are considered to be new employees in the  
21 following taxable year.

22 2. Three thousand dollars for each full-time employee in a qualified  
23 employment position for the full taxable year in the second year of  
24 continuous employment.

25 3. Three thousand dollars for each full-time employee in a qualified  
26 employment position for the full taxable year in the third year of continuous  
27 employment.

28 C. The capital investment and the new qualified employment positions  
29 requirements of section 41-1525, subsection B must be accomplished within  
30 twelve months after the start of the required capital investment. No credit  
31 may be claimed until both requirements are met. A business that meets the  
32 requirements of section 41-1525, subsection B for a location is eligible to  
33 claim first year credits for three years beginning with the taxable year in  
34 which those requirements are completed. Employees hired at the location  
35 before the beginning of the taxable year but during the twelve-month period  
36 allowed in this subsection are considered to be new employees for the taxable  
37 year in which all of those requirements are completed. The employees that  
38 are considered to be new employees for the taxable year under this subsection  
39 shall not be included in the average number of full-time employees during the  
40 immediately preceding taxable year until the taxable year in which all of the  
41 requirements of section 41-1525, subsection B are completed. An employee  
42 working at a temporary work site in this state while the designated location  
43 is under construction is considered to be working at the designated location  
44 if all of the following occur:

45 1. The employee is hired after the start of the required investment at  
46 the designated location.

- 1           2. The employee is hired to work at the designated location after it  
2 is completed.
- 3           3. The payroll for the employees destined for the designated location  
4 is segregated from other employees.
- 5           4. The employee is moved to the designated location within thirty days  
6 after its completion.
- 7           D. To qualify for a credit under this section, the insurer and the  
8 employment positions must meet the requirements prescribed by section  
9 41-1525.
- 10          E. A credit is allowed for employment in the second and third year  
11 only for qualified employment positions for which a credit was claimed and  
12 allowed in the first year.
- 13          F. The net increase in the number of qualified employment positions is  
14 the lesser of the total number of filled qualified employment positions  
15 created at the designated location or locations during the taxable year or  
16 the difference between the average number of full-time employees in this  
17 state in the current taxable year and the average number of full-time  
18 employees in this state during the immediately preceding taxable year. The  
19 net increase in the number of qualified employment positions computed under  
20 this subsection may not exceed the difference between the average number of  
21 full-time employees in this state in the current taxable year and the average  
22 number of full-time employees in this state during the immediately preceding  
23 taxable year.
- 24          G. A taxpayer who claims a credit under section 20-224.04 shall not  
25 claim a credit under this section with respect to the same employment  
26 positions.
- 27          H. If the allowable tax credit exceeds the state premium tax  
28 liability, the amount of the claim not used as an offset against the state  
29 premium tax liability may be carried forward as a tax credit against  
30 subsequent years' state premium tax liability for a period not exceeding five  
31 taxable years.
- 32          I. If the business is sold or changes ownership through  
33 reorganization, stock purchase or merger, the new taxpayer may claim first  
34 year credits only for the qualified employment positions that it created and  
35 filled with an eligible employee after the purchase or reorganization was  
36 complete. If a person purchases a taxpayer that had qualified for first or  
37 second year credits or if an insurance business changes ownership through  
38 reorganization, stock purchase or merger, the new taxpayer may claim the  
39 second or third year credits if it meets other eligibility requirements of  
40 this section. Credits for which a taxpayer qualified before the changes  
41 described in this subsection are terminated and lost at the time the changes  
42 are implemented.
- 43          J. An insurer that claims a tax credit against state premium tax  
44 liability is not required to pay any additional retaliatory tax imposed  
45 pursuant to section 20-230 as a result of claiming that tax credit.

1 K. A failure to timely report and certify to the Arizona commerce  
2 authority the information prescribed by section 41-1525, subsection E and in  
3 the manner prescribed by section 41-1525, subsection F disqualifies the  
4 insurer from the credit under this section. The department of insurance  
5 shall require written evidence of the timely report to the Arizona commerce  
6 authority.

7 L. A tax credit under this section is subject to recovery for a  
8 violation described in section 41-1525, subsection H.

9 M. The department may adopt rules necessary for the administration of  
10 this section.

11 N. FOR THE PURPOSES OF SUBSECTION B, PARAGRAPHS 2 AND 3 OF THIS  
12 SECTION, IF A FULL-TIME EMPLOYEE IN THE QUALIFIED EMPLOYMENT POSITION LEAVES  
13 DURING THE TAXABLE YEAR, THE EMPLOYEE MAY BE REPLACED WITH ANOTHER NEW  
14 FULL-TIME EMPLOYEE IN THE SAME EMPLOYMENT POSITION AND THE NEW EMPLOYEE WILL  
15 BE TREATED AS BEING IN THEIR SECOND OR THIRD FULL YEAR OF CONTINUOUS  
16 EMPLOYMENT FOR THE PURPOSES OF THE CREDIT UNDER THIS SECTION IF:

17 1. THE TOTAL TIME THE POSITION WAS VACANT FROM THE DATE THE EMPLOYMENT  
18 POSITION WAS ORIGINALLY FILLED TO THE END OF THE CURRENT TAX YEAR TOTALS  
19 NINETY DAYS OR LESS.

20 2. THE NEW EMPLOYEE MEETS ALL OF THE SAME REQUIREMENTS AS THE ORIGINAL  
21 EMPLOYEE WAS REQUIRED TO MEET.

22 Sec. 2. Title 41, chapter 10, article 1, Arizona Revised Statutes, is  
23 amended by adding section 41-1507.01, to read:

24 41-1507.01. Certification of basic research payments to a  
25 university

26 A. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2014,  
27 BEFORE A TAXPAYER CAN APPLY TO THE DEPARTMENT OF REVENUE FOR CERTIFICATION OF  
28 ADDITIONAL INCOME TAX CREDITS FOR INCREASED RESEARCH ACTIVITIES INVOLVING  
29 BASIC RESEARCH PAYMENTS TO A UNIVERSITY UNDER SECTION 43-1074.01,  
30 SUBSECTION A, PARAGRAPH 1, SUBDIVISION (c) OR SECTION 43-1168, SUBSECTION A,  
31 PARAGRAPH 1, SUBDIVISION (d), A TAXPAYER SHALL OBTAIN CERTIFICATION FROM THE  
32 AUTHORITY THAT THE BASIC RESEARCH PAYMENTS MEET THE REQUIREMENTS OF THIS  
33 SECTION. THE TAXPAYER SHALL APPLY TO THE AUTHORITY FOR CERTIFICATION OF THE  
34 BASIC RESEARCH PAYMENTS AT A TIME, ON A FORM AND IN A MANNER PRESCRIBED BY  
35 THE AUTHORITY.

36 B. THE AUTHORITY SHALL PROCESS AND EVALUATE EACH APPLICATION FOR  
37 CERTIFICATION OF BASIC RESEARCH PAYMENTS TO A UNIVERSITY UP TO AN AMOUNT THAT  
38 CORRESPONDS TO TEN MILLION DOLLARS PER CALENDAR YEAR IN AGGREGATE COMBINED  
39 PROJECTED ADDITIONAL TAX CREDITS UNDER SECTION 43-1074.01, SUBSECTION A,  
40 PARAGRAPH 1, SUBDIVISION (c) AND SECTION 43-1168, SUBSECTION A, PARAGRAPH 1,  
41 SUBDIVISION (d). THE APPLICANT SHALL IDENTIFY THE AMOUNT OF PROJECTED  
42 ADDITIONAL TAX CREDITS CORRESPONDING TO THE BASIC RESEARCH PAYMENTS TO A  
43 UNIVERSITY SOUGHT TO BE CERTIFIED. THE AMOUNT OF ADDITIONAL TAX CREDITS A  
44 TAXPAYER MAY CLAIM FOLLOWING CERTIFICATION BY THE AUTHORITY MUST BE  
45 ESTABLISHED BY THE DEPARTMENT OF REVENUE UNDER SECTION 43-1074.01, SUBSECTION  
46 A, PARAGRAPH 1, SUBDIVISION (c) OR SECTION 43-1168, SUBSECTION A, PARAGRAPH

1 1, SUBDIVISION (d). THE AUTHORITY SHALL PROCESS AND EVALUATE APPLICATIONS  
2 FOR CERTIFICATION UNDER THIS SECTION THROUGH A COMPETITIVE PROCESS PURSUANT  
3 TO SUBSECTION C OF THIS SECTION THAT MAY INCLUDE THIRD-PARTY PEER REVIEW. AN  
4 APPLICATION FOR CERTIFICATION MUST INCLUDE:

5 1. THE TAXPAYER'S NAME, ADDRESS AND TAXPAYER IDENTIFICATION NUMBER AND  
6 A TELEPHONE NUMBER AND E-MAIL ADDRESS OF A PERSON RESPONSIBLE FOR THE  
7 APPLICATION.

8 2. A GENERAL DESCRIPTION OF THE TAXPAYER'S BUSINESS AND THE RESEARCH  
9 ACTIVITIES CONTEMPLATED BY THE TAXPAYER.

10 3. THE AMOUNT OF THE ADDITIONAL INCOME TAX CREDIT THE TAXPAYER WILL BE  
11 REQUESTING FROM THE DEPARTMENT OF REVENUE.

12 4. ANY OTHER INFORMATION REQUIRED BY THE AUTHORITY.

13 C. THE AUTHORITY SHALL ESTABLISH THE TIME AND MANNER OF THE  
14 COMPETITIVE PROCESS USED IN ISSUING CERTIFICATIONS. IN DETERMINING WHICH  
15 APPLICATIONS MUST BE ISSUED CERTIFICATIONS, THE AUTHORITY OR ITS DESIGNEE  
16 SHALL EVALUATE AMONG ALL APPLICANTS FOR CERTIFICATION OF BASIC RESEARCH  
17 PAYMENTS, THE RELATIVE IMPACT OF THE RESEARCH ACTIVITIES INVOLVING PAYMENTS  
18 TO A UNIVERSITY FROM THE STANDPOINT OF FURTHERING ONE OR MORE OF THE  
19 FOLLOWING CONSIDERATIONS:

20 1. EXPANDING CLUSTER INDUSTRIES. FOR PURPOSES OF THIS PARAGRAPH,  
21 "CLUSTER INDUSTRIES" MEANS CONCENTRATIONS OF FIRMS ACROSS SEVERAL INDUSTRIES  
22 THAT SHARE COMMON ECONOMIC FOUNDATION NEEDS.

23 2. DIVERSIFYING AND STRENGTHENING THIS STATE'S ECONOMY.

24 3. ADVANCING TECHNOLOGICAL COMMERCIALIZATION.

25 4. ENHANCING LONG-TERM QUALITY JOB CREATION.

26 5. ALIGNING RESEARCH WITH UNIVERSITY STRATEGIC PLANS.

27 D. FOLLOWING REVIEW OF EACH APPLICATION PURSUANT TO SUBSECTION C OF  
28 THIS SECTION, THE AUTHORITY SHALL EITHER:

29 1. ISSUE THE APPLICANT A LETTER CERTIFYING THE BASIC RESEARCH  
30 PAYMENTS.

31 2. NOTIFY THE APPLICANT OF THE DENIAL OF THE CERTIFICATION WITH AN  
32 EXPLANATION OF THE BASIS FOR THE DENIAL.

33 E. THE AUTHORITY SHALL ADOPT RULES AND PUBLISH AND PRESCRIBE FORMS AND  
34 PROCEDURES AS NECESSARY TO EFFECTUATE THE PURPOSES OF THIS SECTION.

35 F. ANY INFORMATION GATHERED FROM A BUSINESS FOR THE PURPOSES OF THIS  
36 SECTION IS CONFIDENTIAL AND MAY NOT BE DISCLOSED TO THE PUBLIC EXCEPT THAT  
37 THE INFORMATION MUST BE TRANSMITTED TO THE DEPARTMENT OF REVENUE.



1           1. If the qualified investment is made in a qualified small business  
2 that maintains its principal place of business in a rural county of this  
3 state or is a bioscience enterprise, twelve per cent of the amount of the  
4 investment per year for the first and second taxable years after the  
5 investment is made and eleven per cent of the amount of the investment for  
6 the third taxable year after the year in which the investment is made.

7           2. If the qualified investment is made in a qualified small business  
8 other than a business described in paragraph 1 of this subsection, ten per  
9 cent of the amount of the investment for each of the three taxable years  
10 after the year in which the investment is made.

11           F. The authority shall not authorize tax credits under this section  
12 after June 30, ~~2016~~ 2021. The authority shall not certify tax credits under  
13 this section exceeding twenty million dollars. Tax credits that expire after  
14 certification or that are otherwise not timely used by the qualified investor  
15 for whom they were originally authorized shall be included in the twenty  
16 million dollar limitation. If qualifying applications exceed twenty million  
17 dollars, the authority shall authorize credits in the order of the date and  
18 time that the applications are received by the authority, as evidenced by the  
19 time and date stamped on the application when received by the authority. All  
20 applications shall be filed ~~in person at~~ ON A FORM AND IN THE MANNER  
21 PRESCRIBED BY the Arizona commerce authority. If an application is received  
22 that, if authorized, would require the authority to exceed the twenty million  
23 dollar limit, the authority shall only grant the applicant the remaining  
24 amount of tax credits that would not exceed the twenty million dollar limit.  
25 After the authority authorizes twenty million dollars in tax credits, the  
26 authority shall deny any subsequent applications that are received. The  
27 authority shall certify to the qualified investor and to the department of  
28 revenue the amount of the tax credit that is authorized for purposes of  
29 section 43-1074.02 for each taxable year described in subsection E of this  
30 section.

31           G. The total of all qualified investments in any calendar year by a  
32 qualified investor and its affiliates in qualified small businesses that are  
33 eligible for a tax credit pursuant to this section and section 43-1074.02  
34 shall not exceed ~~two hundred fifty~~ FIVE HUNDRED thousand dollars. The  
35 maximum amount of qualified investments in a single qualified small business  
36 for which the authority may authorize tax credits under this section shall  
37 not exceed an aggregate of two million dollars in investments for all taxable  
38 years. If applications for tax credits are received for investments that  
39 exceed the limits prescribed by this subsection for any qualified small  
40 business, the authority shall authorize credits in the order of the date and  
41 time that the applications are received by the authority. If an application  
42 is received that, if authorized, would require the authority to authorize tax  
43 credits for any investment in a qualified small business that would cause the  
44 total qualified investments in the business to exceed the limits prescribed  
45 by this subsection, the authority shall only grant the applicant the

1 remaining amount of tax credits that would not exceed the limits prescribed  
2 by this subsection.

3 H. The qualified investor shall file a return claiming the tax credit  
4 with the department of revenue for application against income tax pursuant to  
5 section 43-1074.02 by the due date of the return, including extensions, for  
6 the tax year in which the credit is available. If the qualified investor  
7 fails to timely file a return claiming the credit for a taxable year, the  
8 credit expires for that taxable year and there shall be no carryforward of  
9 the expired credit. If a qualified investor includes co-owners of a business  
10 who qualify for individual pro rata shares of the credit pursuant to section  
11 43-1074.02, subsection E, each individual owner shall file a return claiming  
12 the tax credit with the department of revenue by the due date of the return,  
13 including extensions, for the tax year in which the credit is available. If  
14 an individual co-owner fails to timely file a return claiming the credit for  
15 a taxable year, the credit expires for that taxable year and there shall be  
16 no carryforward of the expired credit. Credits that expire or that otherwise  
17 are not timely used by the qualified investor or by the individual co-owner  
18 of a business for whom the credits were originally authorized shall not be  
19 reissued.

20 I. On receiving an application for a tax credit from a qualified  
21 investor, or a written request for certification as a qualified small  
22 business from a corporation, limited liability company, partnership or other  
23 business entity, the authority shall determine whether the corporation,  
24 limited liability company, partnership or other business entity that is named  
25 in the application or written request is a qualified small business. The  
26 authority shall determine if the business is a bioscience enterprise and if  
27 the business maintains its principal place of business in a rural county in  
28 this state. After determining the qualifications, the authority shall  
29 certify the qualified small business as being eligible to receive qualified  
30 investments for purposes of this section. The certification is valid for one  
31 year, but the authority may revoke the certification at any time or refuse to  
32 renew the certification if the business fails to maintain the required  
33 qualifications. If a qualified small business fails to maintain the  
34 qualifications, the business shall notify the authority within five business  
35 days of failing to meet the qualifications. The authority shall revoke the  
36 certification of the business and may assess a penalty against the business  
37 entity equal to the amount of the tax credits authorized after the business  
38 failed to meet the qualifications. The penalty shall be deposited into the  
39 state general fund. If the certification is revoked or expires, subsequent  
40 investments in the business do not qualify for a tax credit pursuant to this  
41 section and section 43-1074.02. All tax credits that are issued before any  
42 expiration or revocation of the certification shall remain valid. Any  
43 application for a tax credit shall not be denied on the basis of the  
44 expiration or revocation of the certification if the investment was made  
45 before the date of the expiration or revocation.

1 J. The authority shall provide to the department of revenue necessary  
2 information required to administer this section and section 43-1074.02. If  
3 the authority subsequently discovers that an applicant who received a tax  
4 credit misrepresented information on the application, the authority shall  
5 immediately notify the department of revenue and provide the department of  
6 revenue all information that relates to that applicant. If the department of  
7 revenue determines that there has been a misrepresentation on the  
8 application, the department of revenue shall deny the credit if the  
9 misrepresentation relates to whether the applicant was a qualified investor  
10 or made a qualified investment. If the misrepresentation relates to whether  
11 the investment was made to:

12 1. A qualified small business, the department of revenue shall deny  
13 the credit only if the applicant knew or should have known at any time before  
14 the certification that the representation was false.

15 2. A bioscience enterprise or a business that maintains its principal  
16 place of business in a rural county in this state, the department of revenue  
17 shall decrease the amount of the credit that would have been allowed under  
18 subsection E, paragraph 1 of this section to the amount allowed under  
19 subsection E, paragraph 2 of this section only if the applicant knew or  
20 should have known at any time before the certification that the  
21 representation was false.

22 K. For the purposes of this section:

23 1. "Affiliate" means any person or entity that controls, that is  
24 controlled by or that is under common control with another person or  
25 entity. For the purposes of this paragraph, "control" means the power to  
26 determine the policies of an entity whether through ownership of voting  
27 securities, by contract or otherwise.

28 2. "Asset" means any owned property that has value including financial  
29 assets and physical assets. Intellectual property shall not be included when  
30 determining total assets.

31 3. "Bioscience enterprise" means a business whose activity is related  
32 to bioscience as determined by the authority or any corporation, partnership,  
33 limited liability company or other business entity that is primarily engaged  
34 in a business that conducts research, development, manufacture, marketing,  
35 sale and licensing of products, services and solutions relating to either of  
36 the following:

37 (a) Medical, pharmaceutical, nutraceutical, bioengineering,  
38 biomechanical, bioinformatics or other life-science based applications.

39 (b) Applications of modern biological, bioengineering, biomechanical  
40 or bioinformatics technologies in the fields of human, plant or animal  
41 health, agriculture, defense, homeland security or the environment.

42 4. "Qualified investment" means an investment in an equity security  
43 that meets all of the following requirements:

44 (a) The equity security shall be common stock, preferred stock, an  
45 interest in a partnership or limited liability company, a security that is

1 convertible into an equity security or any other equity security as  
2 determined by the authority.

3 (b) The investment shall be at least twenty-five thousand dollars.

4 (c) The qualified investor and its affiliates do not hold, of record  
5 or beneficially, immediately before making an investment, equity securities  
6 possessing more than thirty per cent of the total voting power of all equity  
7 securities of the qualified small business.

8 5. "Qualified investor" means an individual, limited liability  
9 company, partnership, S corporation as defined in section 1361 of the  
10 internal revenue code or other business entity that makes a qualified  
11 investment in a qualified small business. Qualified investor does not mean a  
12 corporation that is subject to tax under title 43, chapter 11.

13 6. "Qualified small business" means a corporation, limited liability  
14 company, partnership or other business entity that:

15 (a) Maintains at least a portion of its operations at an office or  
16 manufacturing or research facility located in this state.

17 (b) Has at least two principal full-time equivalent employees who are  
18 residents in this state. For the purposes of this subdivision, "principal"  
19 means a person whose sole responsibility is not administrative.

20 (c) Does not engage in any activities that involve human cloning or  
21 embryonic stem cell research.

22 (d) Has total assets not exceeding two million dollars through  
23 December 31, 2011 or ten million dollars beginning from and after December  
24 31, 2011, excluding any investment made under this section.

25 (e) Has not exceeded the limitation on qualified investments  
26 prescribed by subsection G of this section.

27 (f) Does not have a principal business involving activities excluded  
28 by the authority. The authority shall provide a list of excluded businesses  
29 to any person on request.

30 7. "Rural county" means a county that has a population of seven  
31 hundred fifty thousand or fewer persons.

32 Sec. 4. Section 43-1074, Arizona Revised Statutes, is amended to read:  
33 43-1074. Credit for new employment

34 A. For taxable years beginning from and after June 30, 2011, a credit  
35 is allowed against the taxes imposed by this title for net increases in  
36 full-time employees residing in this state and hired in qualified employment  
37 positions in this state as computed and certified by the Arizona commerce  
38 authority pursuant to section 41-1525.

39 B. Subject to subsection F of this section, the amount of the credit  
40 is equal to:

41 1. Three thousand dollars for each full-time employee hired in a  
42 qualified employment position in the first year or partial year of  
43 employment. Employees hired in the last ninety days of the taxable year are  
44 excluded for that taxable year and are considered to be new employees in the  
45 following taxable year.

1           2. Three thousand dollars for each full-time employee in a qualified  
2 employment position for the full taxable year in the second year of  
3 continuous employment.

4           3. Three thousand dollars for each full-time employee in a qualified  
5 employment position for the full taxable year in the third year of continuous  
6 employment.

7           C. The capital investment and the new qualified employment positions  
8 requirements of section 41-1525, subsection B must be accomplished within  
9 twelve months after the start of the required capital investment. No credit  
10 may be claimed until both requirements are met. A business that meets the  
11 requirements of section 41-1525, subsection B for a location is eligible to  
12 claim first year credits for three years beginning with the taxable year in  
13 which those requirements are completed. Employees hired at the location  
14 before the beginning of the taxable year but during the twelve-month period  
15 allowed in this subsection are considered to be new employees for the taxable  
16 year in which all of those requirements are completed. The employees that  
17 are considered to be new employees for the taxable year under this subsection  
18 shall not be included in the average number of full-time employees during the  
19 immediately preceding taxable year until the taxable year in which all of the  
20 requirements of section 41-1525, subsection B are completed. An employee  
21 working at a temporary work site in this state while the designated location  
22 is under construction is considered to be working at the designated location  
23 if all of the following occur:

24           1. The employee is hired after the start of the required investment at  
25 the designated location.

26           2. The employee is hired to work at the designated location after it  
27 is completed.

28           3. The payroll for the employees destined for the designated location  
29 is segregated from other employees.

30           4. The employee is moved to the designated location within thirty days  
31 after its completion.

32           D. To qualify for a credit under this section, the taxpayer and the  
33 employment positions must meet the requirements prescribed by section  
34 41-1525.

35           E. A credit is allowed for employment in the second and third year  
36 only for qualified employment positions for which a credit was claimed and  
37 allowed in the first year.

38           F. The net increase in the number of qualified employment positions is  
39 the lesser of the total number of filled qualified employment positions  
40 created at the designated location or locations during the taxable year or  
41 the difference between the average number of full-time employees in this  
42 state in the current taxable year and the average number of full-time  
43 employees in this state during the immediately preceding taxable year. The  
44 net increase in the number of qualified employment positions computed under  
45 this subsection may not exceed the difference between the average number of  
46 full-time employees in this state in the current taxable year and the average

1 number of full-time employees in this state during the immediately preceding  
2 taxable year.

3 G. A taxpayer who claims a credit under section 43-1079 or 43-1083.01  
4 shall not claim a credit under this section with respect to the same  
5 employment positions.

6 H. If the allowable tax credit exceeds the income taxes otherwise due  
7 on the claimant's income, or if there are no state income taxes due on the  
8 claimant's income, the amount of the claim not used as an offset against the  
9 income taxes may be carried forward as a tax credit against subsequent years'  
10 income tax liability for a period not exceeding five taxable years.

11 I. Co-owners of a business, including partners in a partnership and  
12 shareholders of an S corporation, as defined in section 1361 of the internal  
13 revenue code, may each claim only the pro rata share of the credit allowed  
14 under this section based on the ownership interest. The total of the credits  
15 allowed all such owners of the business may not exceed the amount that would  
16 have been allowed for a sole owner of the business.

17 J. If the business is sold or changes ownership through  
18 reorganization, stock purchase or merger, the new taxpayer may claim first  
19 year credits only for the qualified employment positions that it created and  
20 filled with an eligible employee after the purchase or reorganization was  
21 complete. If a person purchases a taxpayer that had qualified for first or  
22 second year credits or changes ownership through reorganization, stock  
23 purchase or merger, the new taxpayer may claim the second or third year  
24 credits if it meets other eligibility requirements of this section. Credits  
25 for which a taxpayer qualified before the changes described in this  
26 subsection are terminated and lost at the time the changes are implemented.

27 K. A failure to timely report and certify to the Arizona commerce  
28 authority the information prescribed by section 41-1525, subsection E, and in  
29 the manner prescribed by section 41-1525, subsection F disqualifies the  
30 taxpayer from the credit under this section. The department shall require  
31 written evidence of the timely report to the Arizona commerce authority.

32 L. A tax credit under this section is subject to recovery for a  
33 violation described in section 41-1525, subsection H.

34 M. FOR THE PURPOSES OF SUBSECTION B, PARAGRAPHS 2 AND 3 OF THIS  
35 SECTION, IF A FULL-TIME EMPLOYEE IN THE QUALIFIED EMPLOYMENT POSITION LEAVES  
36 DURING THE TAXABLE YEAR, THE EMPLOYEE MAY BE REPLACED WITH ANOTHER NEW  
37 FULL-TIME EMPLOYEE IN THE SAME EMPLOYMENT POSITION AND THE NEW EMPLOYEE WILL  
38 BE TREATED AS BEING IN THEIR SECOND OR THIRD FULL YEAR OF CONTINUOUS  
39 EMPLOYMENT FOR THE PURPOSES OF THE CREDIT UNDER THIS SECTION IF:

40 1. THE TOTAL TIME THE POSITION WAS VACANT FROM THE DATE THE EMPLOYMENT  
41 POSITION WAS ORIGINALLY FILLED TO THE END OF THE CURRENT TAX YEAR TOTALS  
42 NINETY DAYS OR LESS.

43 2. THE NEW EMPLOYEE MEETS ALL OF THE SAME REQUIREMENTS AS THE ORIGINAL  
44 EMPLOYEE WAS REQUIRED TO MEET.

1           Sec. 5. Section 43-1074.01, Arizona Revised Statutes, as amended by  
2 Laws 2012, chapter 3, section 46 and chapter 170, section 58, 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-four per cent of that amount.

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

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

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

23           (c) For taxable years beginning from and after December 31, 2011, an  
24 additional credit amount is allowed if the taxpayer made basic research  
25 payments during the taxable year to a university under the jurisdiction of  
26 the Arizona board of regents. The additional credit amount is equal to ten  
27 per cent of the excess, if any, of the basic research payments over the  
28 qualified organization base period amount for the taxable year. The  
29 department shall not allow credit amounts under this subdivision and section  
30 43-1168, subsection A, paragraph 1, subdivision (d) that exceed, in the  
31 aggregate, a combined total of ten million dollars in any calendar year.  
32 Subject to that limit, on application by the taxpayer, the department shall  
33 certify credit amounts under this subdivision and section 43-1168, subsection  
34 A, paragraph 1, subdivision (d) based on priority placement established by  
35 the date that the taxpayer filed the application. **FOR TAXABLE YEARS  
36 BEGINNING FROM AND AFTER DECEMBER 31, 2014, ANY BASIC RESEARCH PAYMENTS USED  
37 TO DETERMINE THE ADDITIONAL CREDIT UNDER THIS SUBDIVISION MUST FIRST RECEIVE  
38 CERTIFICATION FROM THE ARIZONA COMMERCE AUTHORITY PURSUANT TO SECTION  
39 41-1507.01.** The additional credit amount under this subdivision shall not  
40 exceed the amount allowed based on actual basic research payments or the  
41 department's certification, whichever is less. If an application, if  
42 certified in full, would exceed the ten million dollar limit, the department  
43 shall certify only an amount within that limit. After the limit is attained,  
44 the department shall deny any subsequent applications regardless of whether  
45 other certified amounts are not actually claimed as a credit or other  
46 taxpayers fail to qualify to actually claim certified amounts.

1 Notwithstanding subsections B and C of this section, any amount of the  
2 additional credit under this subdivision that exceeds the taxes otherwise due  
3 under this title is not refundable, but may be carried forward to the next  
4 five consecutive taxable years. For the purposes of this subdivision, "basic  
5 research payments" and "qualified organization base period amount" have the  
6 same meanings prescribed by section 41(e) of the internal revenue code  
7 without regard to whether the taxpayer is or is not a corporation.

8 2. Qualified research includes only research conducted in this state  
9 including research conducted at a university in this state and paid for by  
10 the taxpayer.

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

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

17 5. The termination provisions of section 41 of the internal revenue  
18 code do not apply.

19 B. Except as provided by subsection C of this section, if the  
20 allowable credit under this section exceeds the taxes otherwise due under  
21 this title on the claimant's income, or if there are no taxes due under this  
22 title, the amount of the credit not used to offset taxes may be carried  
23 forward to the next fifteen consecutive taxable years. The amount of credit  
24 carryforward from taxable years beginning from and after December 31, 2000  
25 through December 31, 2002 that may be used in any taxable year may not exceed  
26 the taxpayer's tax liability under this title or five hundred thousand  
27 dollars, whichever is less, minus the credit under this section for the  
28 current taxable year's qualified research expenses. The amount of credit  
29 carryforward from taxable years beginning from and after December 31, 2002  
30 that may be used in any taxable year may not exceed the taxpayer's tax  
31 liability under this title minus the credit under this section for the  
32 current taxable year's qualified research expenses. A taxpayer who carries  
33 forward any amount of credit under this subsection may not thereafter claim a  
34 refund of any amount of the credit under subsection C of this section.

35 C. For taxable years beginning from and after December 31, 2009, if a  
36 taxpayer who claims a credit under this section employs fewer than one  
37 hundred fifty persons in the taxpayer's trade or business and if the  
38 allowable credit under this section exceeds the taxes otherwise due under  
39 this title on the claimant's income, or if there are no taxes due under this  
40 title, in lieu of carrying the excess amount of credit forward to subsequent  
41 taxable years under subsection B of this section, the taxpayer may elect to  
42 receive a refund as follows:

43 1. The taxpayer must apply to the Arizona commerce authority for  
44 qualification for the refund pursuant to section 41-1507 and submit a copy of  
45 the authority's certificate of qualification to the department of revenue  
46 with the taxpayer's income tax return.

1           2. The amount of the refund is limited to seventy-five per cent of the  
2 amount by which the allowable credit under this section exceeds the  
3 taxpayer's tax liability under this title for the taxable year. The  
4 remainder of the excess amount of the credit is waived.

5           3. The refund shall be paid in the manner prescribed by section  
6 42-1118.

7           4. The refund is subject to setoff under section 42-1122.

8           5. If the department determines that a credit refunded pursuant to  
9 this subsection is incorrect or invalid, the excess credit issued may be  
10 treated as a tax deficiency pursuant to section 42-1108.

11           D. A taxpayer that claims a credit for increased research and  
12 development activity under this section shall not claim a credit under  
13 section 43-1085.01 for the same expenses.

14           Sec. 6. Section 43-1074.01, Arizona Revised Statutes, as amended by  
15 Laws 2012, chapter 3, section 47, is amended to read:

16           43-1074.01. Credit for increased research activities

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

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

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

26           (b) If the excess is over two million five hundred thousand dollars,  
27 the credit is equal to five hundred thousand dollars plus eleven per cent of  
28 any amount exceeding two million five hundred thousand dollars, except that:

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

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

35           (c) For taxable years beginning from and after December 31, 2011, an  
36 additional credit amount is allowed if the taxpayer made basic research  
37 payments during the taxable year to a university under the jurisdiction of  
38 the Arizona board of regents. The additional credit amount is equal to ten  
39 per cent of the excess, if any, of the basic research payments over the  
40 qualified organization base period amount for the taxable year. The  
41 department shall not allow credit amounts under this subdivision and section  
42 43-1168, subsection A, paragraph 1, subdivision (d) that exceed, in the  
43 aggregate, a combined total of ten million dollars in any calendar year.  
44 Subject to that limit, on application by the taxpayer, the department shall  
45 certify credit amounts under this subdivision and section 43-1168, subsection  
46 A, paragraph 1, subdivision (d) based on priority placement established by

1 the date that the taxpayer filed the application. FOR TAXABLE YEARS  
2 BEGINNING FROM AND AFTER DECEMBER 31, 2014, ANY BASIC RESEARCH PAYMENTS USED  
3 TO DETERMINE THE ADDITIONAL CREDIT UNDER THIS SUBDIVISION MUST FIRST RECEIVE  
4 CERTIFICATION FROM THE ARIZONA COMMERCE AUTHORITY PURSUANT TO SECTION  
5 41-1507.01. The additional credit amount under this subdivision shall not  
6 exceed the amount allowed based on actual basic research payments or the  
7 department's certification, whichever is less. If an application, if  
8 certified in full, would exceed the ten million dollar limit, the department  
9 shall certify only an amount within that limit. After the limit is attained,  
10 the department shall deny any subsequent applications regardless of whether  
11 other certified amounts are not actually claimed as a credit or other  
12 taxpayers fail to qualify to actually claim certified amounts.  
13 Notwithstanding subsections B and C of this section, any amount of the  
14 additional credit under this subdivision that exceeds the taxes otherwise due  
15 under this title is not refundable, but may be carried forward to the next  
16 five consecutive taxable years. For the purposes of this subdivision, "basic  
17 research payments" and "qualified organization base period amount" have the  
18 same meanings prescribed by section 41(e) of the internal revenue code  
19 without regard to whether the taxpayer is or is not a corporation.

20 2. Qualified research includes only research conducted in this state  
21 including research conducted at a university in this state and paid for by  
22 the taxpayer.

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

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

29 5. The termination provisions of section 41 of the internal revenue  
30 code do not apply.

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

1 C. For taxable years beginning from and after December 31, 2009, if a  
2 taxpayer who claims a credit under this section employs fewer than one  
3 hundred fifty persons in the taxpayer's trade or business and if the  
4 allowable credit under this section exceeds the taxes otherwise due under  
5 this title on the claimant's income, or if there are no taxes due under this  
6 title, in lieu of carrying the excess amount of credit forward to subsequent  
7 taxable years under subsection B of this section, the taxpayer may elect to  
8 receive a refund as follows:

9 1. The taxpayer must apply to the Arizona commerce authority for  
10 qualification for the refund pursuant to section 41-1507 and submit a copy of  
11 the authority's certificate of qualification to the department of revenue  
12 with the taxpayer's income tax return.

13 2. The amount of the refund is limited to seventy-five per cent of the  
14 amount by which the allowable credit under this section exceeds the  
15 taxpayer's tax liability under this title for the taxable year. The  
16 remainder of the excess amount of the credit is waived.

17 3. The refund shall be paid in the manner prescribed by section  
18 42-1118.

19 4. The refund is subject to setoff under section 42-1122.

20 5. If the department determines that a credit refunded pursuant to  
21 this subsection is incorrect or invalid, the excess credit issued may be  
22 treated as a tax deficiency pursuant to section 42-1108.

23 D. A taxpayer that claims a credit for increased research and  
24 development activity under this section shall not claim a credit under  
25 section 43-1085.01 for the same expenses.

26 Sec. 7. Section 43-1074.02, Arizona Revised Statutes, is amended to  
27 read:

28 43-1074.02. Credit for investment in qualified small businesses

29 A. For taxable years beginning from and after December 31, 2006  
30 through December 31, ~~2019~~ 2024, a credit is allowed against the taxes imposed  
31 by this title for investment made after June 30, 2006 in qualified small  
32 businesses. The amount of the credit is the amount determined and authorized  
33 by the Arizona commerce authority as provided by section 41-1518.

34 B. To claim the credit under this section, the taxpayer shall attach  
35 to its tax return a copy of the Arizona commerce authority certification  
36 provided pursuant to section 41-1518. No credit is allowed under this  
37 section unless the taxpayer provides the certification.

38 C. The basis of any investment with respect to which the taxpayer has  
39 claimed a credit under this section shall be reduced by the amount of the  
40 credit claimed with respect to that investment.

41 D. If the allowable tax credit exceeds the taxes due under this title  
42 on the claimant's income, or if there are no taxes due under this title, the  
43 amount of the claim not used to offset the taxes under this title may be  
44 carried forward to the next three consecutive taxable years as a credit  
45 against subsequent years' income tax liability.

1 E. Individuals who are co-owners of a business, including partners in  
2 a partnership and shareholders of an S corporation as defined in section 1361  
3 of the internal revenue code, may each claim only their individual pro rata  
4 shares of the credit allowed under this section based on their ownership  
5 interests. The total of the credits allowed all such owners may not exceed  
6 the amount that would have been allowed a sole owner.

7 F. If the department of revenue determines that there has been a  
8 misrepresentation on an application submitted to the Arizona commerce  
9 authority under section 41-1518, the department of revenue shall deny the  
10 credit if the misrepresentation relates to whether the applicant was a  
11 qualified investor or made a qualified investment. If the misrepresentation  
12 relates to whether the investment was made to:

13 1. A qualified small business, the department of revenue shall deny  
14 the credit only if the applicant knew or should have known at any time before  
15 the certification that the representation was false.

16 2. A bioscience enterprise or a business that maintains its principal  
17 place of business in a rural county in this state, the department of revenue  
18 shall decrease the amount of the credit that would have been allowed only if  
19 the applicant knew or should have known at any time before the certification  
20 that the representation was false.

21 Sec. 8. Section 43-1161, Arizona Revised Statutes, is amended to read:

22 43-1161. Credit for new employment

23 A. For taxable years beginning from and after June 30, 2011, a credit  
24 is allowed against the taxes imposed by this title for net increases in  
25 full-time employees residing in this state and hired in qualified employment  
26 positions in this state as computed and certified by the Arizona commerce  
27 authority pursuant to section 41-1525.

28 B. Subject to subsection F of this section, the amount of the credit  
29 is equal to:

30 1. Three thousand dollars for each full-time employee hired in a  
31 qualified employment position in the first year or partial year of  
32 employment. Employees hired in the last ninety days of the taxable year are  
33 excluded for that taxable year and are considered to be new employees in the  
34 following taxable year.

35 2. Three thousand dollars for each full-time employee in a qualified  
36 employment position for the full taxable year in the second year of  
37 continuous employment.

38 3. Three thousand dollars for each full-time employee in a qualified  
39 employment position for the full taxable year in the third year of continuous  
40 employment.

41 C. The capital investment and the new qualified employment positions  
42 requirements of section 41-1525, subsection B must be accomplished within  
43 twelve months after the start of the required capital investment. No credit  
44 may be claimed until both requirements are met. A business that meets the  
45 requirements of section 41-1525, subsection B for a location is eligible to  
46 claim first year credits for three years beginning with the taxable year in

1 which those requirements are completed. Employees hired at the location  
2 before the beginning of the taxable year but during the twelve-month period  
3 allowed in this subsection are considered to be new employees for the taxable  
4 year in which all of those requirements are completed. The employees that  
5 are considered to be new employees for the taxable year under this subsection  
6 shall not be included in the average number of full-time employees during the  
7 immediately preceding taxable year until the taxable year in which all of the  
8 requirements of section 41-1525, subsection B are completed. An employee  
9 working at a temporary work site in this state while the designated location  
10 is under construction is considered to be working at the designated location  
11 if all of the following occur:

12 1. The employee is hired after the start of the required investment at  
13 the designated location.

14 2. The employee is hired to work at the designated location after it  
15 is completed.

16 3. The payroll for the employees destined for the designated location  
17 is segregated from other employees.

18 4. The employee is moved to the designated location within thirty days  
19 after its completion.

20 D. To qualify for a credit under this section, the taxpayer and the  
21 employment positions must meet the requirements prescribed by section  
22 41-1525.

23 E. A credit is allowed for employment in the second and third year  
24 only for qualified employment positions for which a credit was claimed and  
25 allowed in the first year.

26 F. The net increase in the number of qualified employment positions is  
27 the lesser of the total number of filled qualified employment positions  
28 created at the designated location or locations during the taxable year or  
29 the difference between the average number of full-time employees in this  
30 state in the current taxable year and the average number of full-time  
31 employees in this state during the immediately preceding taxable year. The  
32 net increase in the number of qualified employment positions computed under  
33 this subsection may not exceed the difference between the average number of  
34 full-time employees in this state in the current taxable year and the average  
35 number of full-time employees in this state during the immediately preceding  
36 taxable year.

37 G. A taxpayer ~~who~~ THAT claims a credit under section 43-1164.01 or  
38 43-1167 shall not claim a credit under this section with respect to the same  
39 employment positions.

40 H. If the allowable tax credit exceeds the income taxes otherwise due  
41 on the claimant's income, or if there are no state income taxes due on the  
42 claimant's income, the amount of the claim not used as an offset against the  
43 income taxes may be carried forward as a tax credit against subsequent years'  
44 income tax liability for a period not exceeding five taxable years.

45 I. Co-owners of a business, including corporate partners in a  
46 partnership, may each claim only the pro rata share of the credit allowed

1 under this section based on the ownership interest. The total of the credits  
2 allowed all such owners of the business may not exceed the amount that would  
3 have been allowed for a sole owner of the business.

4 J. If the business is sold or changes ownership through  
5 reorganization, stock purchase or merger, the new taxpayer may claim first  
6 year credits only for the qualified employment positions that it created and  
7 filled with an eligible employee after the purchase or reorganization was  
8 complete. If a person purchases a taxpayer that had qualified for first or  
9 second year credits or changes ownership through reorganization, stock  
10 purchase or merger, the new taxpayer may claim the second or third year  
11 credits if it meets other eligibility requirements of this section. Credits  
12 for which a taxpayer qualified before the changes described in this  
13 subsection are terminated and lost at the time the changes are implemented.

14 K. A failure to timely report and certify to the Arizona commerce  
15 authority the information prescribed by section 41-1525, subsection E, and in  
16 the manner prescribed by section 41-1525, subsection F disqualifies the  
17 taxpayer from the credit under this section. The department shall require  
18 written evidence of the timely report to the Arizona commerce authority.

19 L. A tax credit under this section is subject to recovery for a  
20 violation described in section 41-1525, subsection H.

21 M. FOR THE PURPOSES OF SUBSECTION B, PARAGRAPHS 2 AND 3 OF THIS  
22 SECTION, IF A FULL-TIME EMPLOYEE IN THE QUALIFIED EMPLOYMENT POSITION LEAVES  
23 DURING THE TAXABLE YEAR, THE EMPLOYEE MAY BE REPLACED WITH ANOTHER NEW  
24 FULL-TIME EMPLOYEE IN THE SAME EMPLOYMENT POSITION AND THE NEW EMPLOYEE WILL  
25 BE TREATED AS BEING IN THEIR SECOND OR THIRD FULL YEAR OF CONTINUOUS  
26 EMPLOYMENT FOR THE PURPOSES OF THE CREDIT UNDER THIS SECTION IF:

27 1. THE TOTAL TIME THE POSITION WAS VACANT FROM THE DATE THE EMPLOYMENT  
28 POSITION WAS ORIGINALLY FILLED TO THE END OF THE CURRENT TAX YEAR TOTALS  
29 NINETY DAYS OR LESS.

30 2. THE NEW EMPLOYEE MEETS ALL OF THE SAME REQUIREMENTS AS THE ORIGINAL  
31 EMPLOYEE WAS REQUIRED TO MEET.

32 Sec. 9. Section 43-1168, Arizona Revised Statutes, as amended by Laws  
33 2012, chapter 3, section 53 and chapter 170, section 73, is amended to read:

34 43-1168. Credit for increased research activities

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

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

39 (a) Add:

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

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

1 (b) If the sum computed under subdivision (a) is two million five  
2 hundred thousand dollars or less, the credit is equal to twenty-four per cent  
3 of that amount.

4 (c) If the sum computed under subdivision (a) is over two million five  
5 hundred thousand dollars, the credit is equal to six hundred thousand dollars  
6 plus fifteen per cent of any amount exceeding two million five hundred  
7 thousand dollars, except that:

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

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

14 (d) For taxable years beginning from and after December 31, 2011, an  
15 additional credit amount is allowed if the taxpayer made basic research  
16 payments during the taxable year to a university under the jurisdiction of  
17 the Arizona board of regents. The additional credit amount is equal to ten  
18 per cent of the excess, if any, of the basic research payments over the  
19 qualified organization base period amount for the taxable year. The  
20 department shall not allow credit amounts under this subdivision and section  
21 43-1074.01, subsection A, paragraph 1, subdivision (c) that exceed, in the  
22 aggregate, a combined total of ten million dollars in any calendar year.  
23 Subject to that limit, on application by the taxpayer, the department shall  
24 certify credit amounts under this subdivision and section 43-1074.01,  
25 subsection A, paragraph 1, subdivision (c) based on priority placement  
26 established by the date that the taxpayer filed the application. **FOR TAXABLE**  
27 **YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2014, ANY BASIC RESEARCH PAYMENTS**  
28 **USED TO DETERMINE THE ADDITIONAL CREDIT UNDER THIS SUBDIVISION MUST FIRST**  
29 **RECEIVE CERTIFICATION FROM THE ARIZONA COMMERCE AUTHORITY PURSUANT TO SECTION**  
30 **41-1507.01.** The additional credit amount under this subdivision shall not  
31 exceed the amount allowed based on actual basic research payments or the  
32 department's certification, whichever is less. If an application, if  
33 certified in full, would exceed the ten million dollar limit, the department  
34 shall certify only an amount within that limit. After the limit is attained,  
35 the department shall deny any subsequent applications regardless of whether  
36 other certified amounts are not actually claimed as a credit or other  
37 taxpayers fail to qualify to actually claim certified amounts.  
38 Notwithstanding subsections B and D of this section, any amount of the  
39 additional credit under this subdivision that exceeds the taxes otherwise due  
40 under this title is not refundable, but may be carried forward to the next  
41 five consecutive taxable years. For the purposes of this subdivision, "basic  
42 research payments" and "qualified organization base period amount" have the  
43 same meanings prescribed by section 41(e) of the internal revenue code.

44 2. Qualified research includes only research conducted in this state  
45 including research conducted at a university in this state and paid for by  
46 the taxpayer.

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

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

6           5. The termination provisions of section 41 of the internal revenue  
7 code do not apply.

8           B. Except as provided by subsection D of this section, if the  
9 allowable credit under this section exceeds the taxes otherwise due under  
10 this title on the claimant's income, or if there are no taxes due under this  
11 title, the amount of the credit not used to offset taxes may be carried  
12 forward to the next fifteen consecutive taxable years. The amount of credit  
13 carryforward from taxable years beginning from and after December 31, 2000  
14 through December 31, 2002 that may be used under this subsection in any  
15 taxable year may not exceed the taxpayer's tax liability under this title or  
16 five hundred thousand dollars, whichever is less, minus the credit under this  
17 section for the current taxable year's qualified research expenses. The  
18 amount of credit carryforward from taxable years beginning from and after  
19 December 31, 2002 that may be used under this subsection in any taxable year  
20 may not exceed the taxpayer's tax liability under this title minus the credit  
21 under this section for the current taxable year's qualified research  
22 expenses. A taxpayer that carries forward any amount of credit under this  
23 subsection may not thereafter claim a refund of any amount of the credit  
24 under subsection D of this section.

25           C. If a taxpayer has qualified research expenses that are carried  
26 forward from taxable years beginning before January 1, 2001, the amount of  
27 the expenses carried forward shall be converted to a credit carryforward by  
28 multiplying the amount of the qualified expenses carried forward by twenty  
29 per cent. A credit carryforward determined under this subsection may be  
30 carried forward to not more than fifteen years from the year in which the  
31 expenses were incurred. The amount of credit carryforward from taxable years  
32 beginning before January 1, 2001 that may be used under this subsection in  
33 any taxable year may not exceed the taxpayer's tax liability under this title  
34 or five hundred thousand dollars, whichever is less, minus the credit under  
35 this section for the current taxable year's qualified research expenses. The  
36 total amount of credit carryforward from taxable years beginning before  
37 January 1, 2003 that may be used in any taxable year under subsection B and  
38 this subsection may not exceed the taxpayer's tax liability under this title  
39 or five hundred thousand dollars, whichever is less, minus the credit under  
40 this section for the current taxable year's qualified research expenses.

41           D. For taxable years beginning from and after December 31, 2009, if a  
42 taxpayer who claims a credit under this section employs fewer than one  
43 hundred fifty persons in the taxpayer's trade or business and if the  
44 allowable credit under this section exceeds the taxes otherwise due under  
45 this title on the claimant's income, or if there are no taxes due under this  
46 title, in lieu of carrying the excess amount of credit forward to subsequent

1 taxable years under subsection B of this section, the taxpayer may elect to  
2 receive a refund as follows:

3 1. The taxpayer must apply to the Arizona commerce authority for  
4 qualification for the refund pursuant to section 41-1507 and submit a copy of  
5 the authority's certificate of qualification to the department of revenue  
6 with the taxpayer's income tax return.

7 2. The amount of the refund is limited to seventy-five per cent of the  
8 amount by which the allowable credit under this section exceeds the  
9 taxpayer's tax liability under this title for the taxable year. The  
10 remainder of the excess amount of the credit is waived.

11 3. The refund shall be paid in the manner prescribed by section  
12 42-1118.

13 4. The refund is subject to setoff under section 42-1122.

14 5. If the department determines that a credit refunded pursuant to  
15 this subsection is incorrect or invalid, the excess credit issued may be  
16 treated as a tax deficiency pursuant to section 42-1108.

17 E. A taxpayer that claims a credit for increased research and  
18 development activity under this section shall not claim a credit under  
19 section 43-1164.02 for the same expenses.

20 Sec. 10. Section 43-1168, Arizona Revised Statutes, as amended by Laws  
21 2012, chapter 3, section 54, is amended to read:

22 43-1168. Credit for increased research activity

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

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

27 (a) Add:

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

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

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

36 (c) If the sum computed under subdivision (a) is over two million five  
37 hundred thousand dollars, the credit is equal to five hundred thousand  
38 dollars plus eleven per cent of any amount exceeding two million five hundred  
39 thousand dollars, except that:

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

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

1 (d) For taxable years beginning from and after December 31, 2011, an  
2 additional credit amount is allowed if the taxpayer made basic research  
3 payments during the taxable year to a university under the jurisdiction of  
4 the Arizona board of regents. The additional credit amount is equal to ten  
5 per cent of the excess, if any, of the basic research payments over the  
6 qualified organization base period amount for the taxable year. The  
7 department shall not allow credit amounts under this subdivision and section  
8 43-1074.01, subsection A, paragraph 1, subdivision (c) that exceed, in the  
9 aggregate, a combined total of ten million dollars in any calendar year.  
10 Subject to that limit, on application by the taxpayer, the department shall  
11 certify credit amounts under this subdivision and section 43-1074.01,  
12 subsection A, paragraph 1, subdivision (c) based on priority placement  
13 established by the date that the taxpayer filed the application. **FOR TAXABLE**  
14 **YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2014, ANY BASIC RESEARCH PAYMENTS**  
15 **USED TO DETERMINE THE ADDITIONAL CREDIT UNDER THIS SUBDIVISION MUST FIRST**  
16 **RECEIVE CERTIFICATION FROM THE ARIZONA COMMERCE AUTHORITY PURSUANT TO SECTION**  
17 **41-1507.01.** The additional credit amount under this subdivision shall not  
18 exceed the amount allowed based on actual basic research payments or the  
19 department's certification, whichever is less. If an application, if  
20 certified in full, would exceed the ten million dollar limit, the department  
21 shall certify only an amount within that limit. After the limit is attained,  
22 the department shall deny any subsequent applications regardless of whether  
23 other certified amounts are not actually claimed as a credit or other  
24 taxpayers fail to qualify to actually claim certified amounts.  
25 Notwithstanding subsections B and D of this section, any amount of the  
26 additional credit under this subdivision that exceeds the taxes otherwise due  
27 under this title is not refundable, but may be carried forward to the next  
28 five consecutive taxable years. For the purposes of this subdivision, "basic  
29 research payments" and "qualified organization base period amount" have the  
30 same meanings prescribed by section 41(e) of the internal revenue code.

31 2. Qualified research includes only research conducted in this state  
32 including research conducted at a university in this state and paid for by  
33 the taxpayer.

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

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

39 5. The termination provisions of section 41 of the internal revenue  
40 code do not apply.

41 B. Except as provided by subsection D of this section, if the  
42 allowable credit under this section exceeds the taxes otherwise due under  
43 this title on the claimant's income, or if there are no taxes due under this  
44 title, the amount of the credit not used to offset taxes may be carried  
45 forward to the next fifteen consecutive taxable years. The amount of credit  
46 carryforward from taxable years beginning from and after December 31, 2000

1 through December 31, 2002 that may be used under this subsection in any  
2 taxable year may not exceed the taxpayer's tax liability under this title or  
3 five hundred thousand dollars, whichever is less, minus the credit under this  
4 section for the current taxable year's qualified research expenses. The  
5 amount of credit carryforward from taxable years beginning from and after  
6 December 31, 2002 that may be used under this subsection in any taxable year  
7 may not exceed the taxpayer's tax liability under this title minus the credit  
8 under this section for the current taxable year's qualified research  
9 expenses. A taxpayer that carries forward any amount of credit under this  
10 subsection may not thereafter claim a refund of any amount of the credit  
11 under subsection D of this section.

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

28 D. For taxable years beginning from and after December 31, 2009, if a  
29 taxpayer who claims a credit under this section employs fewer than one  
30 hundred fifty persons in the taxpayer's trade or business and if the  
31 allowable credit under this section exceeds the taxes otherwise due under  
32 this title on the claimant's income, or if there are no taxes due under this  
33 title, in lieu of carrying the excess amount of credit forward to subsequent  
34 taxable years under subsection B of this section, the taxpayer may elect to  
35 receive a refund as follows:

36 1. The taxpayer must apply to the Arizona commerce authority for  
37 qualification for the refund pursuant to section 41-1507 and submit a copy of  
38 the authority's certificate of qualification to the department of revenue  
39 with the taxpayer's income tax return.

40 2. The amount of the refund is limited to seventy-five per cent of the  
41 amount by which the allowable credit under this section exceeds the  
42 taxpayer's tax liability under this title for the taxable year. The  
43 remainder of the excess amount of the credit is waived.

44 3. The refund shall be paid in the manner prescribed by section  
45 42-1118.

46 4. The refund is subject to setoff under section 42-1122.

1           5. If the department determines that a credit refunded pursuant to  
2 this subsection is incorrect or invalid, the excess credit issued may be  
3 treated as a tax deficiency pursuant to section 42-1108.

4           E. A taxpayer that claims a credit for increased research and  
5 development activity under this section shall not claim a credit under  
6 section 43-1164.02 for the same expenses.

7           Sec. 11. Retroactivity

8           Sections 20-224.03, 43-1074 and 43-1161, Arizona Revised Statutes, as  
9 amended by this act, are effective retroactively to from and after December  
10 31, 2013.

11          Sec. 12. Effective date

12          Section 43-1074.01, Arizona Revised Statutes, as amended by Laws 2012,  
13 chapter 3, section 47 and this act, and section 43-1168, Arizona Revised  
14 Statutes, as amended by Laws 2012, chapter 3, section 54 and this act, are  
15 effective from and after December 31, 2017.

APPROVED BY THE GOVERNOR APRIL 23, 2014.

FILED IN THE OFFICE OF THE SECRETARY OF STATE APRIL 24, 2014.