



**ARIZONA STATE SENATE**  
*Fifty-Sixth Legislature, First Regular Session*

FACT SHEET FOR S.B. 1562

research; development; tax credits

Purpose

Authorizes the Arizona Commerce Authority (ACA) to review and approve a portion of a taxpayer's unused balance of the nonrefundable portion of the Research and Development Credit (R&D Credit) for reinvestment and caps, at \$50,000,000 in a fiscal year, the total amount of the unused balance of income tax credits (unused credits) the ACA may approve for reinvestment. Appropriates \$50,075,000 from the state General Fund (state GF) in FY 2024 to the ACA for unused credit reinvestment implementation and administration and outlines unused credit reinvestment requirements. Increases the aggregate annual cap, from \$5,000,000 to \$10,000,000, on the refundable portion of the R&D Credit.

Background

The corporate and individual R&D Credit is allowed against income tax liability for increased research activities conducted in Arizona, including research conducted at a state university that is funded by the taxpayer. The R&D Credit is nonrefundable or refundable up to the aggregate statutory cap. The nonrefundable portion of the R&D Credit is administered by the Arizona Department of Revenue (ADOR) and the refundable portion is administered by the ACA.

The R&D Credit may be claimed for *basic research payments* and *qualified research expenses* above a base amount, which is determined based on the ratio of a company's qualified research expenses to its gross receipts during a specified base period. If the amount of the R&D Credit exceeds the taxpayer's income tax liability, the amount of the credit claimed that is not used to offset taxes may be carried forward for 15 consecutive taxable years. For taxable years beginning January 1, 2022, the amount of the credit claimed that is not used to offset taxes may be carried forward for 10 consecutive taxable years.

The ACA must evaluate and certify taxpayers who otherwise qualify for the R&D Credit to further qualify for income tax refunds. An application for refund must include outlined information, including the amount of the taxpayer's income tax credit for the taxable year. Within 30 days after receiving the application, the ACA must issue a certificate of qualification for the refund or notify the applicant of application denial. The ACA may not approve refunds exceeding a total of \$5,000,000 in any calendar year. If, at the end of any year, an unused balance occurs under the refund cap, the balance must be reallocated for a refund in the following year (A.R.S. §§ [41-1507](#); [43-1074.01](#); and [43-1168](#)).

S.B. 1562 appropriates \$50,075,000 from the state GF in FY 2024 to the ACA.

Provisions

***Research and Development Credit***

1. Increases the aggregate annual cap, from \$5,000,000 to \$10,000,000, on the refundable portion of the R&D Credit.

*Appropriation*

2. Appropriates \$50,075,000 from the state GF in FY 2024 to the ACA to be allocated as follows:
  - a) \$50,000,000 to implement the reinvestment of unused credits; and
  - b) \$75,000 to administer the reinvestment of unused credits.
3. Exempts the appropriation from lapsing.

*Reinvestment of Unused Credits*

*(Retroactive to July 1, 2023)*

4. Requires the ACA to receive applications from and evaluate and certify taxpayers that carry forward a balance of unused credits to further qualify for reinvestment of a portion of the unused credits for the following purposes in Arizona:
  - a) sustainability or water capital projects;
  - b) a capital expenditure project between the taxpayer and an institution of higher learning or a career and technical education district (CTED); and
  - c) a workforce development project between the taxpayer and an institution of higher learning or a CTED, including tuition reimbursement, hiring employees for the institution and apprenticeships.
5. Authorizes the ACA to approve a portion of the unused credits for reinvestment, if the unused credits are not expired and the tax credit reinvestment is \$0.75 per dollar of the unused credits.
6. Caps, at \$50,000,000 in a fiscal year, the total amount of tax credit reinvestments the ACA may approve and applies any approved amount against the cap for the fiscal year in which the ACA received the application.
7. Caps an applicant's credit reinvestment at the lesser of \$10,000,000 per year or the applicant's current balance of unused credits.
8. Prohibits the ACA from distributing income tax reinvestment monies to a taxpayer before reviewing and approving a qualifying project.
9. Allows the ACA, if a taxpayer does not comply with tax credit reinvestment requirements, to recapture all or part of the tax credit reinvestment distributed to the taxpayer.
10. Requires a taxpayer to annually apply to the ACA by December 31 for tax credit reinvestment on an ACA-prescribed form that includes:
  - a) the taxpayer's name, address and taxpayer identification number and a telephone number and email address of the person responsible for the application;
  - b) a general description of the taxpayer's business and the qualifying activities that the taxpayer will conduct with the potential income tax credit reinvestment monies; and
  - c) the amount of the taxpayer's outstanding unused credits to be converted.
11. Requires the ACA to process and evaluate each application and notify an applicant within 90 days after receiving a complete and correct application that:
  - a) the application was approved; or
  - b) the application was not approved, including specific reasons for the disapproval.

12. Requires the ACA, on application approval, to provide a portion of the applicant's unused credits for reinvestment to the applicant, subject to the statutory terms and conditions.
13. Specifies that an application disapproval does not preclude a subsequent application if the applicant is able to correct any errors or deficiencies.
14. Allows income tax reinvestments on a first-come, first-served basis according to the application filing date.
15. Requires the amount of a taxpayer's unused credits to be reduced by the amount converted for reinvestment.
16. Requires the ACA, in 2028 and 2031, to conduct an economic analysis on the reinvestment of unused credits and submit the report to the Governor, President of the Senate, Speaker of the House of Representatives and Secretary of State.
17. Requires the ACA to communicate a taxpayer's credit status to ADOR and adopt rules and publish forms as prescribed.
18. Requires ADOR to provide information related to the taxpayer's unused credits to the ACA on request.

*Miscellaneous*

19. Repeals the unused credit reinvestment program on July 1, 2033.
20. Designates this legislation as the *Arizona Reinvestment Fund Act*.
21. Makes technical changes.
22. Becomes effective on the general effective date, with retroactive provisions as noted.

Prepared by Senate Research

February 13, 2023

MG/sr