



ARIZONA DEPARTMENT OF REVENUE – PROGRAM GUIDELINES UNIVERSITY RESEARCH AND DEVELOPMENT TAX CREDIT

A.R.S. § 43-1074.01(A)(1)(c) ▪ A.R.S. § 43-1168(A)(1)(d)

Section 1. Overview

The University Research and Development tax credit provides an additional nonrefundable individual and corporate income tax credit for qualifying basic research payments made during the taxable year to a university under the jurisdiction of the Arizona Board of Regents: Arizona State University, Northern Arizona University and the University of Arizona. The credit is equal to 10% of the excess, if any, of the “basic research payments” over the taxpayer’s “qualified organization base period amount” for the taxable year. The additional tax credit is for taxpayers that qualify for the general Arizona Research and Development income tax credit that is claimed on Arizona Form 308 (or Arizona Form 308-I for individual taxpayers).

Section 2. Authorization Requirements

An income tax credit is available if all of these requirements are met:

- The applicant must first receive certification from the Arizona Commerce Authority (ACA) pursuant to A.R.S. § 41-1507.01.
 - Reference <https://www.azcommerce.com/incentives/research-development/university-research-and-development-income-tax-credit/> for additional information on applying for certification from ACA.
- After receiving a certification from ACA, the taxpayer must request final approval by submitting an Application for Approval to the Arizona Department of Revenue (ADOR).
- Qualified applicant receives a Letter of Approval certifying the credit amount from ADOR.

Section 3. Income Tax Credit Limitations

1. ADOR cannot approve more than \$10 million in income tax credits for a calendar year. The \$10 million limit is for the individual and corporate income tax credit combined. Once the \$10 million credit limitation is reached, no additional tax credits may be approved, even if the amounts that have been approved are not claimed.
2. Only Applications for Approval that first received certification from ACA will be accepted.

Section 4. Application Process

The Application should be submitted after receiving certification from ACA.

The Application shall include:

1. Name, address, and social security number or employer identification number of the Applicant.
2. The business structure of the Applicant.
3. If this credit will be passed through to shareholders or partners, list the names of the shareholders or partners, with social security numbers or employer identification numbers and

percent of expenses. The credit is passed through to shareholders or partners based on their proportionate share of expenses.

4. A contact person, with title, phone number and fax number. If this person is not a corporate officer, a Power of Attorney should be included for the contact.
5. Additional tax credit amount certified by the ACA pursuant to A.R.S. § 41-1507.01. Attach a copy of the certification letter from the ACA.
6. An affidavit signed by an officer of the Applicant. For a sole proprietorship, the individual must sign the affidavit. By signing the affidavit, the officer agrees that the information contained in the Application is true and correct under penalty of perjury.

Section 5. Application Processing

1. Applications should be sent through the United States Postal Services Express to:
Arizona Department of Revenue
University Research and Development Tax Credit
P.O. Box 29099
Phoenix, Arizona 85038
2. Each Application will be assigned a placement number that reflects the date and time on the Express Mail label.
3. If multiple Applications have the same date and time on their Express Mail label, they will be put in order through a process of a random, blind draw.
4. If the Application is reviewed and determined to be invalid or in some way not eligible for the credit, the Application will be denied. *APPLICATIONS THAT DO NOT INCLUDE ALL REQUIRED INFORMATION ARE INVALID AND WILL NOT BE ACCEPTED.*
5. If an Application is denied, the Applicant may submit a second Application that corrects the problem for which the first Application was denied. The new Application will be assigned a placement number based on date and time mailed.
6. If approval for the full amount of credit of an Application would require ADOR to exceed the \$10 million dollar credit limit, ADOR will approve only the remaining credit amount that would not exceed the \$10 million credit limit.

Section 6. Appeal Process

If ADOR denies approval or approves less credit than the amount requested on an Application, the Applicant may appeal the decision in accordance with A.R.S. Title 41, Chapter 6, Article 10. The Applicant may appeal this decision; however, the denial prohibits the Applicant from claiming a tax credit under this program unless the appeal is successful.

If ADOR denies approval or approves less credit than the amount requested on an Application, ADOR will reserve the amount of credit requested by the Applicant from the credit cap, in the event that an appeal from the Applicant is upheld. If the appeal is not upheld and a smaller amount of credit or no credit is approved by ADOR, the reserved credit amount will be allocated to the next eligible Applicant(s).

Section 7: Following Approval

ADOR will notify the Applicant of the amount of credit to which the Applicant is entitled. A Letter of Approval will be transmitted to the Applicant, certifying the approved tax credit amount.

If an Applicant is denied approval for an Application, the amount of the credit denied is reserved, as stated in Section 7. A list will be maintained of other Applications that were received and are complete so that if the denied Applicant exhausts its appeal rights, the reserved credit can be allocated to later Applications.

When the taxpayer files its income tax return, a copy of the Letter of Approval must be attached to the tax form with Arizona Form 346. If the credit is being passed through to partners or shareholders, each partner or shareholder must attach a copy of the Letter of Approval to their income tax return along with Arizona Form 346 to claim the credit. This is a nonrefundable tax credit. If the tax liability is less than the credit amount approved, the unused portion of the credit can be carried forward for five years.

Section 8. Definition of Terms

For purposes of applying for the University Research & Development Tax Credit, the following terms are either defined by ADOR or defined in Arizona Revised Statutes or defined in the Internal Revenue Code. If a term is not defined, the most commonly accepted meaning will apply. For purposes of this program:

1. "Applicant" means a C corporation, a unitary group of corporations, an Arizona affiliated group as defined in A.R.S. § 43-947(l)(2), a limited liability company, an S corporation, a sole proprietorship, or a partnership.
2. "Application" means the ADOR form "Application for Approval of the University Research and Development Tax Credit" and all required attachments that demonstrate eligibility for the tax credit.
3. "Basic Research Payment" means, with respect to a taxable year, any amount paid in cash during the taxable year to a qualified organization for research and development but only if the payment is pursuant to a written agreement and the research and development is to be performed by the qualified organization.
4. "Credit cap" means the annual tax credit limit of \$10 million in A.R.S. §§ 43-1074.01(A)(1)(c) and 43-1168(A)(1)(d).
5. "Letter of Approval" means a letter issued to the Applicant by the Arizona Department of Revenue (ADOR) certifying the amount of credit the Applicant may claim when filing its Arizona tax return.
6. "Qualified organization" means a university under the jurisdiction of the Arizona Board of Regents. Universities under the jurisdiction of the Arizona Board of Regents are Arizona State University, Northern Arizona University and the University of Arizona.
7. "Taxpayer" means an individual, a corporation, an S corporation, a partnership or a limited liability company. A unitary group required to file a combined return shall be treated as a single

taxpayer. An Arizona affiliated group required to file a consolidated return shall be treated as a single taxpayer.

University Research and Development Tax Credit
Office of Economic Research and Analysis
Arizona Department of Revenue
P.O. Box 29099
Phoenix, AZ 85038

Questions can be directed to Karen Jacobs (602-716-6923) or Elaine Smith (602-716-6924).