

REFERENCE TITLE: **research; development; tax credits**

State of Arizona
Senate
Fifty-sixth Legislature
First Regular Session
2023

SB 1562

Introduced by
Senators Kaiser: Bennett, Carroll, Gabaldón, Miranda, Shope

AN ACT

AMENDING SECTION 41-1507, ARIZONA REVISED STATUTES; AMENDING TITLE 41, CHAPTER 10, ARTICLE 1, ARIZONA REVISED STATUTES, BY ADDING SECTION 41-1507.02; REPEALING SECTION 41-1507.02, ARIZONA REVISED STATUTES; APPROPRIATING MONIES; 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 41-1507, Arizona Revised Statutes, is amended to
3 read:

4 41-1507. Tax credit for increased research activity;
5 qualification for refund

6 A. The authority shall receive applications and evaluate and
7 certify taxpayers who otherwise qualify for income tax credits for
8 increased research activities to further qualify for income tax refunds.

9 B. An application for a refund of the taxpayer's credit must
10 include:

11 1. The taxpayer's name, address and taxpayer identification number
12 and a telephone number and ~~e-mail~~ EMAIL address of a person WHO IS
13 responsible for the application.

14 2. A general description of the taxpayer's business and the
15 research activities conducted by the taxpayer.

16 3. The number of full-time employees on the taxpayer's payroll on
17 the last day of the taxpayer's taxable year. Only taxpayers employing
18 fewer than one hundred fifty full-time employees qualify for a refund of
19 the taxpayer's income tax credit.

20 4. The amount of the taxpayer's income tax credit for the taxable
21 year.

22 5. Any other information required by the authority.

23 C. Each application shall include a processing fee equal to one ~~per~~
24 ~~cent~~ PERCENT of the taxpayer's tax credit being refunded.

25 D. The authority shall process and evaluate each application and
26 within thirty days after receiving the application either:

27 1. Issue to the applicant a certificate of qualification for the
28 refund.

29 2. Notify the applicant of denial of the application with specific
30 reasons for the denial. A denial of the application does not preclude a
31 subsequent application if the applicant is able to correct any error or
32 deficiency.

33 E. The authority shall not approve refunds exceeding a total of
34 ~~five million dollars~~ \$10,000,000 in any calendar year. Refunds are
35 allowed on a ~~first come~~ FIRST-COME, ~~first served~~ FIRST-SERVED basis,
36 according to the date of application. An approved amount applies against
37 the dollar limit for the year in which the application was submitted. If,
38 at the end of any year, an unused balance occurs under the dollar limit
39 prescribed by this subsection, the balance shall be reallocated for the
40 purposes of this section in the following year.

41 F. The authority, with the cooperation of the department of
42 revenue, shall adopt rules and publish and prescribe forms and procedures
43 as necessary to effectuate the purposes of this section.

1 Sec. 2. Title 41, chapter 10, article 1, Arizona Revised Statutes,
2 is amended by adding section 41-1507.02, to read:

3 41-1507.02. Reinvestment of unused income tax credits;
4 economic analysis; report

5 A. NOTWITHSTANDING ANY OTHER LAW, THE AUTHORITY SHALL RECEIVE
6 APPLICATIONS FROM AND EVALUATE AND CERTIFY TAXPAYERS THAT CARRY FORWARD AN
7 UNUSED BALANCE OF INCOME TAX CREDITS FOR INCREASED RESEARCH ACTIVITIES
8 UNDER SECTION 43-1074.01 OR 43-1168 TO FURTHER QUALIFY FOR REINVESTMENT OF
9 A PORTION OF THE TAXPAYER'S UNUSED BALANCE OF THE TAX CREDIT TO BE USED
10 FOR THE PURPOSES PRESCRIBED IN SUBSECTION F OF THIS SECTION.

11 B. THE AUTHORITY MAY APPROVE A PORTION OF THE UNUSED BALANCE OF
12 INCOME TAX CREDITS FOR REINVESTMENT SUBJECT TO THE FOLLOWING CONDITIONS:

13 1. THE TAX CREDIT MUST NOT HAVE EXPIRED.

14 2. THE AMOUNT OF THE INCOME TAX CREDIT REINVESTMENT IS \$.75 PER
15 DOLLAR OF UNUSED INCOME TAX CREDITS UNDER SECTION 43-1074.01 OR 43-1168,
16 AS APPLICABLE, NOT TO EXCEED \$10,000,000 PER YEAR PER APPLICANT OR THE
17 APPLICANT'S CURRENT UNUSED BALANCE OF INCOME TAX CREDITS UNDER SECTION
18 43-1074.01 OR 43-1168, WHICHEVER IS LESS.

19 3. THE AMOUNT OF THE TAXPAYER'S UNUSED BALANCE OF INCOME TAX
20 CREDITS UNDER SECTION 43-1074.01 OR 43-1168, AS APPLICABLE, SHALL BE
21 REDUCED BY THE AMOUNT OF INCOME TAX CREDITS CONVERTED UNDER THIS SECTION.

22 C. A TAXPAYER MUST APPLY TO THE AUTHORITY ON OR BEFORE DECEMBER 31
23 OF EACH TAXABLE YEAR FOR INCOME TAX CREDIT REINVESTMENT ON A FORM THAT IS
24 PRESCRIBED BY THE AUTHORITY AND THAT INCLUDES ALL OF THE FOLLOWING
25 INFORMATION:

26 1. THE TAXPAYER'S NAME, ADDRESS AND TAXPAYER IDENTIFICATION NUMBER
27 AND A TELEPHONE NUMBER AND EMAIL ADDRESS OF A PERSON WHO IS RESPONSIBLE
28 FOR THE APPLICATION.

29 2. A GENERAL DESCRIPTION OF THE TAXPAYER'S BUSINESS AND THE
30 ACTIVITIES DESCRIBED IN SUBSECTION F OF THIS SECTION THAT THE TAXPAYER
31 WILL CONDUCT WITH THE POTENTIAL INCOME TAX CREDIT REINVESTMENT MONIES.

32 3. THE AMOUNT OF THE TAXPAYER'S OUTSTANDING TAX CREDITS UNDER
33 SECTION 43-1074.01 OR 43-1168, AS APPLICABLE, TO BE CONVERTED UNDER THIS
34 SECTION.

35 D. THE AUTHORITY SHALL PROCESS AND EVALUATE EACH APPLICATION AND,
36 WITHIN NINETY DAYS AFTER RECEIVING A COMPLETE AND CORRECT APPLICATION,
37 SHALL NOTIFY THE APPLICANT EITHER THAT:

38 1. THE APPLICATION WAS APPROVED. ON APPROVAL, THE AUTHORITY SHALL
39 PROVIDE A PORTION OF THE APPLICANT'S UNUSED BALANCE OF INCOME TAX CREDITS
40 FOR REINVESTMENT TO THE APPLICANT, SUBJECT TO THE TERMS AND CONDITIONS OF
41 THIS SECTION.

42 2. THE APPLICATION WAS NOT APPROVED AND SHALL PROVIDE THE APPLICANT
43 WITH SPECIFIC REASONS FOR THE DISAPPROVAL. A DISAPPROVAL OF THE
44 APPLICATION DOES NOT PRECLUDE A SUBSEQUENT APPLICATION IF THE APPLICANT IS
45 ABLE TO CORRECT THE ERROR OR DEFICIENCY.

1 E. THE AUTHORITY MAY NOT APPROVE INCOME TAX CREDIT REINVESTMENTS
2 EXCEEDING A TOTAL OF \$50,000,000 IN ANY FISCAL YEAR. INCOME TAX
3 REINVESTMENTS ARE ALLOWED ON A FIRST-COME, FIRST-SERVED BASIS ACCORDING TO
4 THE DATE THE APPLICATION IS FILED WITH THE AUTHORITY. AN APPROVED AMOUNT
5 APPLIES AGAINST THE DOLLAR LIMIT FOR THE FISCAL YEAR IN WHICH THE
6 AUTHORITY RECEIVED THE COMPLETE AND CORRECT APPLICATION.

7 F. MONIES DISTRIBUTED BY THE AUTHORITY MAY BE USED ONLY FOR ANY OF
8 THE FOLLOWING PURPOSES IN THIS STATE:

9 1. SUSTAINABILITY OR WATER CAPITAL PROJECTS.

10 2. A CAPITAL EXPENDITURE PROJECT BETWEEN THE TAXPAYER AND AN
11 INSTITUTION OF HIGHER LEARNING OR A CAREER TECHNICAL EDUCATION DISTRICT.

12 3. A WORKFORCE DEVELOPMENT PROJECT BETWEEN THE TAXPAYER AND AN
13 INSTITUTION OF HIGHER LEARNING OR A CAREER TECHNICAL EDUCATION DISTRICT,
14 INCLUDING:

15 (a) TUITION REIMBURSEMENT.

16 (b) HIRING EMPLOYEES FOR THE INSTITUTION OF HIGHER LEARNING.

17 (c) APPRENTICESHIPS.

18 G. THE AUTHORITY MAY NOT DISTRIBUTE INCOME TAX REINVESTMENT MONIES
19 TO A TAXPAYER BEFORE THE AUTHORITY REVIEWS AND APPROVES THE PROJECT.

20 H. IN 2028 AND 2031, THE AUTHORITY SHALL CONDUCT AN ECONOMIC
21 ANALYSIS REGARDING THE REINVESTMENT OF INCOME TAX CREDITS PURSUANT TO THIS
22 SECTION. THE AUTHORITY SHALL SUBMIT A REPORT OF ITS ANALYSIS TO THE
23 GOVERNOR, THE PRESIDENT OF THE SENATE AND THE SPEAKER OF THE HOUSE OF
24 REPRESENTATIVES AND SHALL PROVIDE A COPY OF THIS REPORT TO THE SECRETARY
25 OF STATE.

26 I. THE AUTHORITY SHALL:

27 1. COMMUNICATE THE TAXPAYER'S CREDIT STATUS WITH THE DEPARTMENT OF
28 REVENUE.

29 2. ADOPT RULES AND PUBLISH FORMS AS PRESCRIBED BY THIS SECTION.

30 J. THE DEPARTMENT OF REVENUE SHALL PROVIDE INFORMATION RELATED TO
31 THE TAXPAYER'S UNUSED TAX CREDITS TO THE AUTHORITY ON REQUEST.

32 K. IF THE TAXPAYER DOES NOT COMPLY WITH THIS SECTION, THE AUTHORITY
33 MAY RECAPTURE ALL OR PART OF THE UNUSED TAX CREDIT REINVESTMENT THAT IS
34 DISTRIBUTED TO THE TAXPAYER.

35 Sec. 3. Delayed Repeal

36 Section 41-1507.02, Arizona Revised Statutes, as added by this act,
37 is repealed from and after June 30, 2033.

38 Sec. 4. Appropriation; Arizona commerce authority; exemption

39 A. The sum of \$50,075,000 is appropriated from the state general
40 fund in fiscal year 2023-2024 to the Arizona commerce authority. The
41 Arizona commerce authority shall allocate the monies as follows:

42 1. \$50,000,000 to implement section 41-1507.02, Arizona Revised
43 Statutes, as added by this act.

44 2. \$75,000 to administer section 41-1507.02, Arizona Revised
45 Statutes, as added by this act.

1 B. The appropriation made in subsection A of this section is exempt
2 from the provisions of section 35-190, Arizona Revised Statutes, relating
3 to lapsing of appropriations.

4 Sec. 5. Retroactivity

5 Section 41-1507.02, Arizona Revised Statutes, as added by this act,
6 applies retroactively to from and after June 30, 2023.

7 Sec. 6. Short title

8 Section 41-1507.02, Arizona Revised Statutes, as added by this act,
9 may be cited as the "Arizona Reinvestment Fund Act".