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# ARIZONA TAX RESEARCH ASSOCIATION

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## **ATRA OPPOSES HB2342** *Increases the Refundable Tax Credit Cap*

### **Background**

Arizona Revised Statutes allow income tax credits for increased Research and Development (R&D) expenditures above a certain level. Prior to 2010, the program authorized a taxpayer to carryforward the credit for up to 15 years. However, in 2010, the Legislature expanded the program to allow a taxpayer that employs 150 or fewer people to apply for a tax refund for up to 75% of the allowable tax credit in lieu of carrying the credit forward - with or without actual tax liability.

For tax years 2011 through 2017, if the excess expenditures for R&D are \$2.5 million or less, the credit is equal to 24% of the excess amount. If the excess expenditures exceed \$2.5 million, the credit increases by 15% of the excess amount over \$2.5 million. For 2018 and after, the R&D tax credit is 20% of the first \$2.5 million, and an additional 11% for expenditures in excess of \$2.5 million.

The current program is capped at \$5 million per calendar year. HB2342 expands the program cap to \$10 million in 2014, which is increased to \$15 million in 2015 and for each year thereafter.

### **Basis for ATRA's Opposition**

ATRA was in strong opposition to the legislation that ultimately passed in 2010 to make the R&D tax credit refundable. Refundable tax credits become the "first draw" on state revenues. These credits appropriate state funds ahead of funding for schools, health care, and prisons and are not really credits at all. A **refundable** "credit" is not a credit against tax liability. In fact, the venture may not have even been profitable.

If state policymakers are inclined to dedicate state resources to any industry, they should do so through the appropriations process where that appropriation competes with all other state priorities.