

2016 Solar Liquid Fuel Credit

For information or help, call one of the numbers listed:

Phoenix (602) 255-3381
From area codes 520 and 928, toll-free (800) 352-4090

Tax forms, instructions, and other tax information

If you need tax forms, instructions, and other tax information, go to the department's website at www.azdor.gov.

Income Tax Procedures and Rulings

These instructions may refer to the department's income tax procedures and rulings for more information. To view or print these, go to our website and click on *Legal Research* then click on *Procedures* or *Rulings* and select a tax type from the drop down menu.

Publications

To view or print the department's publications, go to our website and click on *Publications*.

General Instructions

Arizona Revised Statutes (A.R.S.) §§ 43-1085.01 and 43-1164.02 provide nonrefundable individual and corporate income tax credits for increased research activities related to solar liquid fuel.

"Solar liquid fuel" means liquid fuel that is generated through processes that use sunlight, carbon dioxide and water to produce infrastructure-compatible liquid hydrocarbon fuels.

This credit is available to individuals, corporations, S corporations claiming the credit at the corporate level, and exempt organizations subject to tax on unrelated business taxable income (UBTI). For exempt organizations to claim this credit, the credit must result from activities that generate the UBTI.

Co-owners of a business, including partners in a partnership and shareholders of an S corporation, may each claim only the *pro rata* share of the credit allowed based on the ownership interest. The total of the credits allowed all such owners may not exceed the amount that would have been allowed for a sole owner of the business.

There is no carry forward for the solar liquid fuel credit. This credit must be used on the tax return filed for the taxable year in which the research was conducted.

This credit is composed of three parts:

1. A credit for increased research and development activity related to solar liquid fuel.
2. A credit for the production of solar liquid fuel in Arizona in commercial quantities.
3. A credit for costs incurred during the taxable year to convert or modify existing motor vehicle service stations for the retail sale of solar liquid fuel to customers.

Increased Research and Development Activity Related to Solar Liquid Fuel

- This credit is equal to 40 percent (.40) of the amount exceeding the excess, if any, of the qualified research expenses over the base amount defined in section 41(c) of the Internal Revenue Code (IRC).
- Claiming this credit is in lieu of the following credits, with respect to the same expenses:

- The credit for increased research activities claimed on Arizona Form 308-I or Form 308; and
- The credit for increased research activities for basic research payments, claimed on Arizona Form 346.
- The Arizona solar liquid fuel credit related to increased research is allowed in an amount computed pursuant to IRC § 41 with the following exceptions:
 - Qualified research includes only research related to solar liquid fuel conducted in Arizona. The term "qualified research", for purposes of the Arizona tax credit, means qualified research, as defined in IRC § 41, that is conducted in Arizona.
 - The amount of the credit is based on the federal regular credit computation method for Arizona qualified research expenses. [Taxpayers cannot use the federal alternative credit computation method.] The allowable current taxable year credit is 40 percent (.40) of the excess, if any, of the Arizona qualified research expenses for the taxable year, over the base amount.

Production of Solar Liquid Fuel

- Solar liquid fuel must be produced in commercial quantities in Arizona.
- The credit is equal to eleven cents (\$.11) per one hundred thousand (100,000) British Thermal Units (BTUs) of fuel produced in this state in the taxable year.

Converting or Modifying Existing Motor Vehicle Service Stations (Delivery)

- The credit is allowed for costs incurred during the taxable year to convert or modify existing motor vehicle fuel service stations for the retail sale of solar liquid fuel to customers.
- The credit is equal to 30 percent (.30) of the cost of conversion or modification, but not more than twenty thousand dollars (\$20,000) per taxable year per service station.

Specific Instructions

Complete the name and taxpayer identification number section at the top of the form. Indicate the period covered by the taxable year. Include the completed form with the tax return.

All returns, statements, and other documents filed with the department require a taxpayer identification number (TIN). The TIN for a corporation, an exempt organization with UBTI, an S corporation or a partnership is the taxpayer's employer identification number. The TIN for an individual is the taxpayer's social security number or an Internal Revenue Service individual taxpayer identification number. Taxpayers that fail to include their TIN may be subject to a penalty.

Part 1 - Calculation of the Credit

Increased Research and Development Activity Related to Solar Liquid Fuel

Line 1 -

Enter total wages paid or incurred for qualified services performed in Arizona. Do not include the amount of wages

paid to employees that were used in the calculation of the federal work opportunity credit.

NOTE: *Wages include any wages paid or incurred to an employee for qualified services performed in Arizona.*

Qualified services are: (1) engaging in qualified research related to solar liquid fuel; or, (2) engaging in the direct supervision, or the direct support of research activities related to solar liquid fuel conducted in Arizona that are defined as qualified research.

Line 2 -

Enter the cost of supplies paid or incurred for use in conducting qualified research in Arizona. Supplies include expenditures for any tangible property other than land or improvements to land, and property that can be depreciated.

Line 3 -

Enter the amount paid or incurred to rent or lease the right to use computers in conducting qualified research in Arizona.

Line 4 -

Enter the total of:

- (a) Seventy-five percent (.75) of any amount paid or incurred for qualified research performed in Arizona by a qualified research consortium on the taxpayer's behalf. "Qualified research consortium" is any qualifying organization as defined in IRC § 41(b)(3)(C)(ii).
- (b) Sixty-five percent (.65) of any amount paid or incurred for qualified research performed in Arizona on the taxpayer's behalf, other than such amounts paid to a qualified research consortium. Prepaid contract research expenses are considered paid in the year the research is actually done.

Line 5 -

Add lines 1 through 4. Enter the total.

Line 6 -

Enter the amount of expenses included on lines 1 through 4 that are related to solar liquid fuel that will be claimed on Arizona Form 308, Arizona Form 308-I or Arizona Form 346. The solar liquid fuel credit is in lieu of these credits with respect to the same expenses.

Line 7 -

Subtract line 6 from line 5. Enter the difference.

Line 8 -

Enter the average annual Arizona gross receipts for the four taxable years preceding the taxable year for which the credit is being determined (the credit year). The taxpayer may be required to annualize gross receipts for any short taxable year.

If 2016 is the first year the taxpayer is in business, the average annual Arizona gross receipts for the preceding taxable years is zero. If the taxpayer has been in business in Arizona for less than four taxable years prior to the credit year, then the average is the sum of annual Arizona gross receipts of the applicable period, divided by the number of taxable years.

Example: ABC Corporation began business in Arizona in 2014. Its annual Arizona gross receipts for 2014 were \$100,000. Its annual Arizona gross receipts for 2015 were \$200,000.

Therefore, ABC Corporation's average annual Arizona gross receipts for the 2016 credit year is \$150,000 ([\$100,000 plus \$200,000] divided by 2).

Line 9 -

Fixed base percentage

Use the same type of formulas to compute your fixed-base percentage for Arizona as you would for computing your federal fixed-base percentage. The difference is that you use Arizona qualified research expense and gross receipts amounts instead of federal amounts. Other than that, the calculations are the same. Round off the percentage to the nearest one, one hundredth of one percent (four decimal places).

If the percentage computation involves *de minimis* amounts of gross receipts and qualified expenses in a taxable year or short taxable years are involved, the amounts may be annualized or disregarded. Refer to IRC §§ 41(c)(3) and 41(f)(4) for details.

Existing firms and start-up companies

Arizona's definition of whether an organization is an existing firm or a start-up company is also the same as federal, except on an Arizona basis:

- **Existing firms** - An existing firm is one that had both Arizona gross receipts and Arizona qualified research expenses for at least three taxable years beginning after December 31, 1983, and before January 1, 1989. The fixed-base percentage is the ratio that the aggregate Arizona qualified research expenses for all taxable years beginning after 1983 and before 1989, bears to the aggregate Arizona gross receipts for such taxable years.
- **Start-up companies** - A start-up company is one that had both Arizona gross receipts and Arizona qualified research expenses either (1) for the first time in a taxable year beginning after December 31, 1983, or (2) for fewer than three taxable years beginning after 1983 and before 1989.

If the percentage computation involves *de minimis* amounts of gross receipts and qualified expenses in a taxable year or short taxable years are involved, the amounts may be annualized or disregarded. Refer to IRC §§ 41(c)(3) and 41(f)(4) for details.

NOTE: *The maximum percentage that can be entered on line 9 is 16 percent (.1600).*

Line 10 -

Multiply the amount on line 8 by the percentage on line 9. Enter the result. This is the base amount.

Line 11 -

If line 7 is greater than line 10, subtract line 10 from line 7. Enter the result. If line 10 is greater than line 7, enter "0".

Line 12 -

Multiply line 7 by 50% (.50). The base amount cannot be less than 50 percent of the current year qualified research expenses. This rule applies to both existing and start-up companies.

Line 13 -

Enter the lesser of line 11 or line 12.

Line 14 -

Multiply the amount on line 13 by 40 percent (.40). Enter the result.

Line 15 -

Enter the total amount of the research and development credit for solar liquid fuel passed through to you on Form (s) 344-P, Part 2, line 4 and/or Form(s) 344-S, Part 2, line 4. If you received this credit from more than one Form 344-P and/or Form 344-S, total the amounts from line 4 of all forms and enter the total here.

Line 16 -

Add line 14 and line 15. Enter the total. This is the total research and development credit for solar liquid fuel.

- *Partnerships*, enter this amount on Form 344-P, Part 2, line 3.
- *S corporations making the election to pass this credit through to its shareholders*, enter this amount on Form 344-S, Part 2, line 3.
- *All others*, enter this amount on Part 2, line 31.

Production of Solar Liquid Fuel

Line 17 -

Enter the amount of solar liquid fuel produced in Arizona during this taxable year. Enter the amount produced in BTUs.

Line 18 -

Divide the amount on line 17 by 100,000. Enter the result.

Line 19 -

Multiply the amount on line 18 by eleven cents (0.11). Enter the result.

Line 20 -

Enter the total amount of the production credit for solar liquid fuel passed through to you on Form(s) 344-P, Part 2, line 6 and/or Form(s) 344-S, Part 2, line 6. If you received this credit from more than one Form 344-P and/or Form 344-S, total the amounts from line 4 on all forms and enter the total here.

Line 21 -

Add line 19 and line 20. Enter the total here. This is the total production credit for solar liquid fuel.

- *Partnerships*, enter this amount on Form 344-P, Part 2, line 5
- *S corporations making the election to pass this credit through to its shareholders*, enter this amount on Form 344-S, Part 2, line 5.
- *All others*, enter this amount on Part 2, line 32.

Converting or Modifying Existing Motor Vehicle Service Stations (Delivery)

Line 22 -

Enter the number of existing motor vehicle fuel service stations converted or modified for the retail sale of solar liquid fuel during the taxable year.

Lines 23 through 25 -

On lines 23 through 25 enter the information for *each* service station that was converted or modified for the sale of solar liquid fuel. In each column enter the following information:

- a) The service station name and address (street, city, state, zip);
- b) The costs incurred in converting or modifying the service station indicated in column (a)
- c) Multiply column (b) by thirty percent (.30). Enter the result.
- d) Enter the lesser of column (c) or \$20,000.

Line 26 -

Add the amounts in column (d) of lines 23, 24, and 25. Enter the total.

Line 27 -

If you are claiming this credit for more than three (3) motor vehicle service stations, include a separate schedule providing this information. *Enter the total for all additional other motor vehicle service stations modified or converted here.*

Line 28 -

Add lines 26 and 27. Enter the total. This is your conversion and modification credit for solar liquid fuel.

Line 29 -

Enter the total amount of the conversion and modification credit for solar liquid fuel passed through to you on Form(s) 344-P, Part 2, line 8 and/or Form(s) 344-S, Part 2, line 8. If you received this credit from more than one Form 344-P and/or Form 344-S, total the amounts from line 8 of all forms and enter the total here.

Line 30 -

Add line 28 and line 29. Enter the total. This is the converting or modifying motor vehicle service stations for solar liquid fuel credit.

- *Partnerships*, enter this amount on Form 344-P, Part 2, line 7.
- *S corporations making the election to pass this credit through to its shareholders*, enter this amount on Form 344-S, Part 2, line 7.
- *All others*, enter this amount on Part 2, line 33.

Part 2 - Total Credit Available**Line 31 -**

Enter the total amount of the research and development credit for solar liquid fuel.

- *Individuals, corporations (including S corporations electing to claim this credit at the corporate level), and exempt organizations with UBTI*, enter the amount from Part 1, line 16.
- *Partnerships*, enter "0".
- *S corporations electing to pass this credit through to its individual shareholders*, enter "0".

Line 32 -

Enter the total amount of the production credit for solar liquid fuel.

- *Individuals, corporations (including S corporations electing to claim this credit at the corporate level), and exempt organizations with UBTI*, enter the amount from Part 1, line 21.
- *Partnerships*, enter "0".
- *S corporations electing to pass this credit through to its individual shareholders*, enter "0".

Line 33 -

Enter the total amount of the production credit for solar liquid fuel.

- *Individuals, corporations (including S corporations electing to claim this credit at the corporate level), and exempt organizations with UBTI*, enter the amount from Part 1, line 30.
- *Partnerships*, enter "0".
- *S corporations electing to pass this credit through to its individual shareholders*, enter "0".

Line 34 -

Add lines 31, 32, and 33. Enter the total. This is the total credit for solar liquid fuel.

- *Individuals*: Also enter this total on Form 301, Part 1, line 26 column (a) and column (c).
- *Corporations, including S corporations electing to claim this credit at the corporate level, and exempt organizations with UBTI*: Also enter this amount on Form 300, Part 1, line 19, column (a) and column (c).

Partnerships: Go to the instructions for completing Form 344-P on page 5.

NOTE: Partnerships and S corporations - Trusts and estates which are partners in a partnership or shareholders in an S corporation are not eligible to claim this credit. However, the share of a partnership, or the share of an S corporation, owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of the credit.

Part 3 - S Corporation Credit Election and Shareholders Share of the Credit

An S corporation may make an irrevocable election to pass this credit through to its shareholders. Or, it can choose to keep this credit and apply it to its own liability generated at the corporate level.

Enter the date the S corporation taxable year ends. Check the box corresponding to the election made by the S corporation, (to claim the credit; or to pass the credit through to its shareholders). The election must be signed by an officer of the S corporation.

When passing this credit through to your shareholders, complete Form 344-S for each shareholder.

- Provide a copy of the completed Form 344-S to each shareholder.
- File a copy of each completed Form 344-S with your tax return.
- Keep a copy of each completed Form 344-S for your records.

S corporations electing to pass this credit through to its shareholders, proceed to the instructions for completing Form 344-S on page 6.

S corporations electing to claim this credit at the corporate level, follow the instructions for Part 2, lines 31 through 34.

Form 344-P, Partner's Portion of the Credit

Enter the taxable year for which this credit is being passed through to your partners.

Complete Form 344-P for each partner of the partnership, *except* for trust or estate partners. However, a partnership ownership share that is owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of the credit.

The partnership must furnish each partner with their completed copy of Form 344-P, including additional schedules as needed.

Part 1 - Partnership and Partner Information

Line 1 -

Enter the partnership name and Employer Identification Number (EIN) in the spaces provided.

Line 2 -

Enter the partner's name, EIN, TIN, or Social Security Number, and ownership percentage in the spaces provided.

Part 2 - Distribution of the Credit

Increased Research and Development Related to Solar Liquid Fuel

Line 3 -

Enter the total amount of the partnership's research and development credit for solar liquid fuel from Form 344, Part 1, line 16.

Line 4 -

Multiply the amount on line 3 by the percentage on line 2(c). Enter the result. This is the partner's share of the credit.

Production of Solar Liquid Fuel

Line 5 -

Enter the total amount of the partnership's production credit for solar liquid fuel from Form 344, Part 1, line 21.

Line 6 -

Multiply the amount on line 5 by the percentage on line 2(c). Enter the result. This is the partner's share of the credit.

Converting or Modifying Existing Motor Vehicle Fuel Stations (Delivery)

Line 7 -

Enter the total amount of the partnership's conversion and modification credit for solar liquid fuel from Form 344, Part 1, line 30.

Line 8 -

Multiply the amount on line 7 by the percentage on line 2(c). Enter the result. This is the partner's share of the credit.

The partner will use this form to complete his or her own Form 344.

Form 344-S, S Corporation Shareholder's Portion of the Credit

Enter the taxable year for which this credit is being passed through to your shareholders.

Complete Form 344-S for each shareholder of the S corporation, *except* for trust or estate shareholders. However, an S corporation ownership share that is owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of the credit.

The S corporation must furnish each shareholder with their completed copy of Form 344-S, including additional schedules as needed.

Part 1 - S Corporation and Shareholder Information

Line 1 -

Enter the S corporation name and Employer Identification Number (EIN) in the spaces provided.

Line 2 -

Enter the shareholder's name, Social Security Number, and ownership percentage in the spaces provided.

Part 2 – Distribution of the Credit

Increased Research and Development Related to Solar Liquid Fuel

Line 3 -

Enter the total amount of the S corporation's research and development credit for solar liquid fuel from Form 344, Part 1, line 16.

Line 4 -

Multiply the amount on line 3 by the percentage on line 2(c). Enter the result. This is the shareholder's share of the credit.

Production of Solar Liquid Fuel

Line 5 -

Enter the total amount of the S corporation's production credit for solar liquid fuel from Form 344, Part 1, line 21.

Line 6 -

Multiply the amount on line 5 by the percentage on line 2(c). Enter the result. This is the shareholder's share of the credit.

Converting or Modifying Existing Motor Vehicle Fuel Stations (Delivery)

Line 7 -

Enter the total amount of the S corporation's conversion and modification credit for solar liquid fuel from Form 344, Part 1, line 30.

Line 8 -

Multiply the amount on line 7 by the percentage on line 2(c). Enter the result. This is the shareholder's share of the credit.

The individual shareholder will use this form to complete his or her own Form 344.