



## Summary of Arizona's R&D Tax Credit for Businesses by Prime Tax Group

### Executive Summary

Arizona offers one of the most competitive and business-friendly R&D tax credit programs in the United States. Recent 2025 updates reinforce its commitment to fostering innovation, particularly among small and mid-sized technology-driven firms. The program's combination of high credit rates, generous refundability provisions, and streamlined access through the Arizona Commerce Authority creates a compelling incentive landscape for companies investing in research and development.

### Historical Credit Structure

Arizona's R&D credit has long been anchored in IRC § 41, rewarding qualified in-state research with high-tier credit rates:

- 24% on the first \$2.5 million of excess QREs over the base amount.
- 15% on all additional qualifying expenses above \$2.5 million.

Taxpayers have traditionally been able to carry forward unused credits for up to 15 years (or *10 years for post-2021 credits*). In addition, R&D conducted in collaboration with Arizona's public universities qualifies for the same generous rates—encouraging partnerships that leverage both academic and private sector innovation.

### Key Enhancements in 2025

Arizona's most impactful update in 2025 is the continuation of the refundable R&D credit for small businesses. Key features include:

- Eligibility for businesses with fewer than 150 full-time employees worldwide.
- Refundable credits up to \$100,000 annually per taxpayer.
- Total statewide cap of \$5 million (***awarded on a first-come, first-served basis***).
- Application and certification overseen by the Arizona Commerce Authority (ACA).

This refundability mechanism offers a direct cash benefit to emerging companies that may not yet be profitable—providing liquidity to reinvest in further innovation, talent acquisition, or expansion.



## **Strategic Benefits for Taxpayers**

<b><i>High Credit Rates:</i></b>	At 24% and 15%, Arizona's credit structure is among the most generous in the country.
<b><i>Refundability:</i></b>	Refunds of up to \$100,000 give early-stage companies access to real capital—even with minimal or no tax liability.
<b><i>Competitive Edge:</i></b>	The ACA's transparent process and timely application cycles favor businesses that <u>plan proactively</u> .
<b><i>Research Collaboration:</i></b>	Encouragement of public-private partnerships through university-aligned QREs can amplify eligible expenditures.
<b><i>Long Carryforwards:</i></b>	With 10–15 year credit carryforwards, businesses of all sizes can strategize their tax positions for long-term gain.

## **Recommendations & Action Plan**

For current and prospective clients conducting or planning research activity in Arizona, the following steps are advised:

1. Identify and document all Arizona-based R&D activities in alignment with IRC § 41.
2. If eligible (<150 employees), prepare for the January refund window by obtaining ACA's Certificate of Qualification early.
3. Prepare supporting documentation and CPA-reviewed QRE data in advance of ACA's first-come application opening.
4. Model credit value and potential refunds as part of a broader strategic tax planning effort.
5. Engage in university partnerships where appropriate to expand eligible expenses and collaborative development.

## **Conclusion**

Arizona's R&D tax credit program, particularly following its 2025 enhancements, stands out as a high-value opportunity for innovation-driven businesses. Its elevated credit rates, partial refundability, and structured administration make it both accessible and impactful. For clients seeking to fund innovation and growth, Arizona should be seen as a top-tier jurisdiction for research investment. Early engagement with the ACA process and proactive documentation will ensure maximum credit capture and optimal tax positioning.