

BEFORE THE STATE BOARD OF TAX APPEALS
STATE OF ARIZONA
100 North 15th Avenue - Suite 140
Phoenix, Arizona 85007
602.364.1102

ANTHONY M. GARCY and LISA A. MURPHY)

Appellants,)

vs.)

ARIZONA DEPARTMENT OF REVENUE,)

Appellee.)

Docket No. 2003-12-1

NOTICE OF DECISION
FINDINGS OF FACT AND
CONCLUSIONS OF LAW

The State Board of Tax Appeals, having considered all evidence and arguments presented, and having taken the matter under advisement, finds and concludes as follows:

FINDINGS OF FACT

Anthony M. Garcy and Lisa A. Murphy ("Appellants," with the singular referring to Anthony M. Garcy), timely filed their 2004 and 2005 Arizona income tax returns. The Arizona Department of Revenue audited Appellants' 2005 return and determined that they had claimed a tax credit for expenses attributable to increased research activities in the total amount of \$2,003. Although they had claimed no such credit in 2004, the \$2,003 claimed in 2005 consisted of \$1,835 claimed as carried over from tax year 2004, and \$168 calculated for tax year 2005.

The Arizona Department of Revenue ("Department") subsequently disallowed the total credit and issued an assessment of tax and interest on April 14, 2010. Appellants protested the assessment to a Department hearing officer, who denied the protest. Appellants then protested the hearing officer's decision to the Director of the Department, who upheld the decision. Appellants now timely appeal to this Board.

DISCUSSION

The issue before the Board is whether Appellants are entitled to the credit claimed for expenses attributable to increased research activities for tax years 2004 and 2005.

1 The credit at issue is allowed for expenses incurred from and after December 31, 2000 for
2 research conducted in this state and paid for by the taxpayer for certain eligible activities. A.R.S. § 43-
3 1074.01(A)(2) and (4). The amount of the credit is determined pursuant to section 41 of the Internal
4 Revenue Code "(IRC)", which further confirms that "qualified research" does not include any research to
5 the extent funded by any grant, contract, or otherwise by another person or government entity. IRC §
6 41(d)(4)(H).

7 In this case, Appellants did not pay for the research at issue. The Litchfield School District and
8 Westat paid Appellant \$7,000.00 in 2004 to conduct statistical research on Arizona student test score
9 performance. Therefore, Appellants' expenses are not deductible under A.R.S. § 43-1074.01, and they
10 are not entitled to the credit claimed. Further, "the department shall collect, as a part of the tax, interest
11 on the unpaid amount" which will accrue until the tax is paid. A.R.S. § 42-1123(C).

12 CONCLUSIONS OF LAW

- 13 1) Appellants are not entitled to the credit claimed. A.R.S. § 43-1074.01; IRC § 41(d)(4)(H).
14 2) Appellants are liable for the interest assessed. A.R.S. § 42-1123(C).

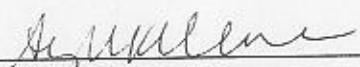
15 ORDER

16 THEREFORE, IT IS HEREBY ORDERED that the appeal is denied, and the final order of the
17 Department is affirmed.

18 This decision becomes final upon the expiration of thirty (30) days from receipt by the taxpayer,
19 unless either the State or taxpayer brings an action in superior court as provided in A.R.S. § 42-1254.

20 DATED this 21st day of May, 2013.

21 STATE BOARD OF TAX APPEALS

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23 _____
24 Amy W. Fellner, Chairperson

25 AWF:ALW

1 Copies of the foregoing
Mailed or delivered to:

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