

**2005 Environmental Technology Facility Credit**

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**General Instructions**

ARS §§ 43-1080 and 43-1169 provide a nonrefundable tax credit for expenses incurred in constructing a qualified environmental technology manufacturing, producing, or processing facility as described in ARS § 41-1514.02. The amount of the credit is equal to 10 percent of the amount spent during the taxable year to construct the facility including: land acquisition, improvements, building improvements, machinery and equipment. The credit cannot exceed 75 percent of the Arizona income tax liability for the taxable year determined without applying the credit.

Until June 30, 1996, the Arizona Department of Commerce shall identify and certify to the Arizona Department of Revenue the names and relevant information relating to qualified environmental technology manufacturers, producers, or processors for purposes of available tax incentives as described under ARS § 41-1514.02. The Arizona Department of Commerce shall not certify any new qualified environmental technology manufacturers, producers, or processors for the purposes of ARS § 41-1514.02 after June 30, 1996. *However, retroactive to July 1, 1996, the certification of a qualified environmental technology manufacturer, producer or processor may be assigned or transferred to one or more successor taxpayers, manufacturers, producers or processors that have acquired and continue to operate a facility that was used to meet the qualifying conditions listed below and that continues to be used predominantly for the purposes listed below.*

To qualify under ARS § 41-1514.02, an environmental technology manufacturer, producer, or processor must locate or make an additional capital investment in a facility in this state that:

- Is used predominantly to do any of the following:
  - a. sort, store, prepare, convert, fabricate, manufacture, or otherwise process finished products consisting of at least 90 percent recycled materials.
  - b. prepare, fabricate, manufacture, or otherwise process

finished products that are powered exclusively with solar or other specific renewable energy.

- c. prepare, fabricate, manufacture, or otherwise process raw material or intermediate product exclusively through a hydro-metallurgical process where at least 85 percent of the process solution used to produce the finished product is recycled on site for additional production.
  - d. fabricate or manufacture finished paper products that consist of at least 80 percent recycled material.
- Costs, or is expected to cost, an aggregate of at least 20 million dollars of new capital investment in this state within five years after construction begins or commencement of installation of improvements.

A taxpayer may claim a credit with respect to new qualifying construction within ten years after the start of the facility's initial construction. A taxpayer qualifies for the credit if the taxpayer owns or leases the facility or any component of the facility for a term of five or more years, but a credit is not allowed for any amount spent more than ten years after the start of the facility's initial construction.

Amounts that qualify for the credit must be includible in the taxpayer's adjusted basis for the facility. The adjusted basis of any asset for which the taxpayer has claimed a credit must be reduced by the amount of credit claimed for that asset.

If the allowable tax credit exceeds 75 percent of the taxes otherwise due on the claimant's income, or if there are no taxes due, the amount of the credit not used to offset taxes may be carried forward for not more than 15 taxable years as a credit against subsequent years' income tax liabilities.

Refer to Arizona Administrative Code rule AAC R15-2D-1001 for detailed information regarding recordkeeping requirements and credit carryover reduction if the credit is recaptured.

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.

If either of the following circumstances occurs with respect to a qualified environmental technology manufacturing, producing, or processing facility, the tax imposed for the taxable year shall be increased by the full amount of all credits previously allowed with respect to that facility:

- The taxpayer abandons construction before the facility is placed in service.
- Before the facility is placed in service, the taxpayer changes plans so that the facility no longer qualifies as an environmental technology manufacturing, producing, or processing facility under ARS § 41-1514.02.

If, within five years after being placed in service, an operating environmental technology manufacturing, producing, or processing facility with respect to which a credit has been

allowed under ARS § 43-1080 or § 43-1169 ceases for any reason to operate as an environmental manufacturing, producing, or processing facility as described in ARS § 41-1514.02, the tax imposed for the taxable year shall be increased by an amount determined by multiplying the full amount of all environmental technology facility credits previously allowed with respect to that facility by a percentage determined as follows:

- If the facility was placed in service less than one year before ceasing to operate as an environmental technology manufacturing, producing, or processing facility, 100 percent.
- If the facility was placed in service at least one year but not more than two years before ceasing to operate as an environmental technology manufacturing, producing, or processing facility, 80 percent.
- If the facility was placed in service at least two years but less than three years before ceasing to operate as an environmental technology manufacturing, producing, or processing facility, 60 percent.
- If the facility was placed in service at least three years but less than four years before ceasing to operate as an environmental technology manufacturing, producing, or processing facility, 40 percent.
- If the facility was placed in service at least four years but less than five years before ceasing to operate as an environmental technology manufacturing, producing, or processing facility, 20 percent.

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### Specific Instructions

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Complete the name and taxpayer identification number section at the top of the form. Indicate the period covered by the taxable year (in an MM/DD/YYYY format). Attach the completed form to the tax return.

All returns, statements, and other documents filed with the department require a taxpayer identification number (TIN). The TIN for a corporation, 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 IRS individual taxpayer identification number. Taxpayers that fail to include their TIN may be subject to a penalty.

Enter the Arizona Department of Commerce certification number.

#### **Part I - Schedule of Cost of Equipment or Property Used in Construction of Facility for Current Year and Calculation of Current Year's Credit**

##### **Line 1 -**

Enter the date the facility's initial construction was started.

#### **Current Year's Cost of Equipment or Property Used in Construction of Facility**

**In column (a)**, describe the expenses incurred in constructing the new qualifying environmental technology facility during the current year. Such items would include land purchased or improved, building construction initiated or improved, or equipment or machinery installed or placed in use. If additional space is needed, attach a separate sheet.

**In column (b)**, enter the amount of the expense.

##### **Line 2 -**

Add the amounts in column (b) and enter the total. This is the total cost of construction or installation for the current taxable year.

##### **Line 3 -**

Multiply line 2 by 10 percent and enter the result. This is the current year's credit.

#### **Part II - S Corporation Credit Election and Shareholder's Share of the Credit**

##### **Line 4 - S Corporation Credit Election**

S corporations must complete line 4. The S corporation must make an irrevocable election to either claim the credit or pass the credit through to its shareholders. The election statement must be signed by one of the officers of the S corporation who is also a signatory to the Form 120S.

##### **Lines 5 through 7 -**

If the S corporation elects to pass the credit through to its shareholders, it must also complete lines 5 through 7.

The S corporation must complete Part I. Then, complete Part II, lines 5 through 7, separately for each shareholder. The S corporation must furnish each shareholder with a copy of the completed Form 305.

If the S corporation passes the credit through to its shareholders, it must notify each shareholder of the shareholder's pro rata share of the adjustment to income required by the difference between the federal depreciable basis and the Arizona depreciable basis of the property for which the credit is claimed. The S corporation must also notify the shareholder of the shareholder's pro rata share of any difference in gain or loss on the sale or other disposition of the property due to the difference in basis.

Each shareholder must complete Parts IV and V.

#### **Part III - Partner's Share of Credit**

##### **Lines 8 through 10 -**

The partnership must complete Part I. Then, complete Part III, lines 8 through 10, separately for each partner. The partnership must furnish each partner with a copy of the completed Form 305.

Each partner must complete Parts IV and V.

**Part IV - Available Credit Carryover**

**NOTE:** A taxpayer is allowed to carry forward the amount of the unused environmental technology facility credit for a period not to exceed fifteen taxable years, provided the facility remains a qualified environmental technology manufacturing, producing, or processing facility.

One hundred percent of the credit carryover is lost if, before the facility is placed in service: (a) the taxpayer abandons construction of the facility, or (b) the taxpayer changes plans in such a manner as to no longer qualify as an environmental technology manufacturing, producing, or processing facility under ARS § 41-1514.02.

If, within five years after being placed in service, the facility ceases to be a qualified environmental technology manufacturing, producing, or processing facility, the credit carryover is reduced by the applicable percentage listed in the table for line 33 of the instructions.

Calculate the total available carryover of the environmental technology facility credit on page 2, Part IV, lines 11 through 26. Complete these lines if the taxpayer claimed the credit on a prior taxable year's tax return and had excess credit.

**In column (a)**, enter the applicable taxable year(s) on lines 11 through 25. **In column (b)**, enter the amount of the original environmental technology facility credit for each taxable year. **In column (c)**, enter the amount of the credit for each taxable year which has been previously used. **In column (d)**, enter the amount unallowable due to recapture of the credit. Add the amounts in columns (c) and (d). Subtract the sum of the amounts in columns (c) and (d) from the amount in column (b). Enter the difference **in column (e)** as the amount available for carryover. Add the amounts entered on lines 11 through 25, column (e). Enter the total on line 26, column (e). This is the total available credit carryover.

**Part V - Total Available Credit**

**Line 27 -**

Enter the current year's environmental technology facility credit.

*Individuals and corporations (including S corporations that elected to claim the credit)* - Enter the amount from Part I, line 3.

*S corporation shareholders* - Enter the amount from Part II, line 7.

*Partners of a partnership* - Enter the amount from Part III, line 10.

**Line 28 -**

Enter the amount of available credit carryover from Part IV, line 26, column (e).

**Line 29 -**

Add lines 27 and 28. Enter the total here and on Form 300, Part I, line 3, or Form 301, Part I, line 3.

**Part VI - Recapture of Environmental Technology Facility Credit**

No recapture of credits is required after the facility has been in operation for five years or more.

**Line 30 -**

Enter the date the facility was placed in service.

**Line 31 -**

Enter the date the facility ceased to operate as a qualified environmental technology manufacturing, producing, or processing facility.

**Line 32 -**

Enter the total credit actually claimed for the total facility from prior taxable years.

**Line 33 -**

Enter the percent of credit recapture based on the number of years the facility operated as an environmental technology manufacturing, producing, or processing facility after being placed in service.

Credit Recapture Percentage	
Less than 1 year	100% (.100)
At least 1 year, but less than 2 years	80% (.80)
At least 2 years, but less than 3 years	60% (.60)
At least 3 years, but less than 4 years	40% (.40)
At least 4 years, but less than 5 years	20% (.20)
5 years or more	No recapture

**NOTE:** One hundred percent of the credit carryover is lost if, before the facility is placed in service: (a) the taxpayer abandons construction of the facility, or (b) the taxpayer changes plans in such a manner as to no longer qualify as an environmental technology manufacturing, producing, or processing facility under ARS § 41-1514.02.

If, within five years after being placed in service, the facility ceases to be a qualified environmental technology manufacturing, producing, or processing facility, the credit carryover is reduced by the applicable percentage listed in the table above.

**Line 34 -**

Multiply the amount on line 32 by the percent on line 33. This is the total environmental technology facility credit recapture for the facility. Enter the result here and on Form 300, Part II, line 18, or Form 301, Part II, line 24.