

2018 Agricultural Water Conservation System 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 *Reports and Legal Research* then click on *Legal Research* and select a *document* and *category* type from the drop down menus.

Publications

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

Purpose of Form

NOTE: You *must* also complete Arizona Form 301, Nonrefundable Individual Tax Credits and Recapture, and include Forms 301 and 312 with your tax return to claim this credit.

Arizona law allows a nonrefundable tax credit for the purchase and installation of an agricultural water conservation system. Complete Form 312 to claim this nonrefundable credit.

To Qualify for the Credit:

- The system must be primarily designed to substantially conserve water on land that the taxpayer or taxpayer's tenant uses to:
 - produce crops, fruits, or other agricultural products; **or**
 - raise, harvest, or grow trees; **or**
 - sustain livestock.
- The expense must be consistent with a conservation plan that the taxpayer has filed and that is in effect with the United States Department of Agriculture Soil Conservation Service.

The credit is equal to 75% of the qualifying expenses incurred during the taxable year.

Who May Claim this Credit?

This credit is available to individuals *only*. A partnership may not claim this credit, but may pass the credit through to partners who are individuals, S corporations and other partnerships. A corporation, including an S corporation, may not claim this credit. However, an S corporation may pass the credit through to its individual shareholders.

Individual co-owners of a business, including individual partners in a partnership and individual shareholders of an S corporation, may each claim only a pro rata share of the credit, based on ownership interest. The total of the credits allowed all

owners may not exceed the amount that would have been allowed for a sole owner of the business.

A partnership passing the current year's credit through to its individual partners must do the following:

- Complete Part 1 and Part 2, lines 1 through 10.
- Complete Form 312-P, *Agricultural Water Conservation System Credit - Distribution to Partners*, for each partner and provide the partner with a copy of Form 312-P.

Form 312-P is available on the department's website. Instructions for completing Form 312-P are included at the end of these instructions, beginning on page 3.

The partner will use Form 312-P to complete their own Form 312 to claim the *pro rata* share of the credit or another Form 312-P, if applicable.

- Include Forms 312 and 312-P with its tax return.
- Keep a copy of Forms 312 and 312-P for its record.

An S corporation passing the current year's credit through to its individual shareholders must do the following:

- Complete Part 1 and Part 2, lines 1 through 10.
- Complete Form 312-S, *Agricultural Water Conservation System Credit - Distribution to Individual shareholders of an S Corporation*, for each individual shareholder and provide the shareholder with a copy of Form 312-S.

Form 312-S is available on the department's website. Instructions for completing Form 312-S are included at the end of these instructions, beginning on page 3.

The individual shareholder will use Form 312-S to complete their own Form 312 to claim the *pro rata* share of the credit.

- Include Forms 312 and 312-S with its tax return.
- Keep a copy of Forms 312 and 312-S for its record.

Individual taxpayers claiming his or her own current year's credit for expenses he or she paid during the taxable year to purchase and install an agricultural water conservation system in this state must do the following:

- Complete Part 1, Part 2 and Part 4.
- Complete Part 3, if claiming an unused credit carryover amount from a prior tax year.
- Include Form 312 with the income tax return, when filed.

Individual taxpayers claiming a pass-through credit for the current tax year from a partnership and/or an S corporation must do the following:

- Complete Part 2, line 8 and/or line 9, using the information provided by the S corporation on Form 312-S or the Partnership on Form 312-P.
- Complete Part 3, if claiming an unused credit carryover amount from a pass-through credit from a prior tax year.
- Include Form 312, Forms 312-S and/or 312-P, with the income tax return, when filed.

NOTE: To claim a credit, the individual taxpayer *must* also complete Arizona Form 301, Nonrefundable Individual Tax Credits and Recapture, and include it with his or her tax return.

If the allowable tax credit exceeds the taxes otherwise due, or if there are no taxes due, you may carry the unused credit forward for a period not to exceed the next five taxable years.

A taxpayer cannot take a subtraction for the same expenses for which a credit is claimed.

For example: If the taxpayer had \$10,000 of qualifying expenses (Part 2, line 6), the credit would be \$7,500 (Part 2, line 7) and the add-back would be \$10,000. The individual would include \$10,000 on the Arizona individual income tax return under "Additions to Income." An individual shareholder claiming a pass-through credit would add-back his or her pro rata share of the qualifying expenses on the individual income tax return under "Other additions to income." The amount the shareholder is required to add-back is reported by the S corporation on Form 312-S, line 1.

Form Instructions

Type or print the required information in 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 income tax return.

All returns, statements, and other documents filed with the department require a taxpayer identification number (TIN). The TIN for a partnership or an S corporation is the taxpayer's employer identification number (EIN). The TIN for an individual is the taxpayer's Social Security Number (SSN) or an Internal Revenue Service (IRS) individual taxpayer identification number (ITIN). Taxpayers that fail to include their identification number may be subject to a penalty.

Part 1 - Qualifying Water Conservation System

Lines 1 through 3 -

On lines 1 through 3, enter the information relating to the water conservation system purchased and installed for which the credit is being claimed.

If the system is not one of the systems or system changes listed, check the "other" box. Give a detailed description of the system and an explanation of how it qualifies for the credit.

Part 2 - Calculation of the Current Taxable Year's Credit

Lines 4 through 10 -

Line 4 -

Enter the total amount of expenses relating to the water conservation system spent in the current taxable year.

Line 5 -

Enter the amount of any reimbursement received for expenses relating to the water conservation system.

Lines 6 and 7 -

Complete these lines as instructed on the form.

Line 8 -

If you are claiming a pass-through credit from a partnership, enter the amount from Form 312-P, line 1.

Line 9 -

If you are claiming a pass-through credit from an S corporation, enter the amount from Form 312-S, line 2.

Line 10 -

Add lines 7, 8, and 9. Enter the total. This is your current taxable year's credit.

Part 3 - Available Credit Carryover

Lines 11 through 16 -

Calculate the total available carryover of the agricultural water conservation credit from tax years 2013 through 2017 in Part 3, lines 11 through 16. Complete these lines if you claimed the credit on a prior taxable year's tax return and the credit was more than your tax.

In column (b) enter the credit originally computed for the taxable year listed in column (a).

In column (c) enter the amount of the credit from that taxable year which you have already used.

In column (d) subtract the amount in column (c) from the amount in column (b) and enter the difference.

Add the amounts entered on lines 11 through 15 in column (d).

Enter the total on line 16, column (d).

Part 4 - Total Available Credit

Lines 17 through 19 -

Line 17 -

Enter the amount from Part 2, line 10. Also, enter this amount on Form 301, line 7, column (a).

Line 18 -

Enter the amount of available credit carryover from Part 3, line 16, column (d). Also, enter this amount on Form 301, line 7, column (b).

Line 19 -

Add line 17 and line 18. Enter the total. Also, enter this amount on Form 301, line 7, column (c).

This is the total available credit that may be applied to the current taxable year's tax liability.

Form 312-P, Agricultural Water System Credit - Distribution to Partners

NOTE: Form 312-P is available on the department's website.

Instructions for Partnerships passing the credit to partners

- Enter the name of the partnership and employer identification number at the top of Form 312-P.
- In the space provided, enter the partner's name, social security or employer identification number, and ownership percentage.

Each partner is entitled to a *pro rata* share of the credit, based on its ownership percentage.

Line 1 -

Enter the partners' pro rata share of the current year's credit based on ownership interest from Form 312, Part 2, line 10.

Instructions for Partners receiving Form 312-P

- Enter the amount from Form 312-P, line 1, on your own Form 312, Part 2, line 8.

If you are claiming a pass-through credit from more than one partnership, add all amounts from Forms 312-P and enter the total on Form 312, Part 2, line 8.

- If the partner is an S corporation it must also complete a separate Form 312-S for each individual shareholder identifying the shareholder's pro rata share of qualifying expenses and pass-through credit amount.
- If the partner is another partnership, it must complete a separate Form 312-P for each partner that is an individual, S corporation or other partnership identifying the partner's pro rata share of the pass-through credit amount.

NOTE: If you file your income tax return on a calendar year basis (January 1, 2018 – December 31, 2018) but the partnership or S corporation passing the credit files its return on a fiscal year basis, claim the pass-through credit on your income tax return for the year in which the Partnership or S corporation's fiscal year ends. For example, if the partnership or S corporation's tax year ends in February 2019, claim this credit on your 2019 tax return.

Form 312-S, Agricultural Water System Credit - Distribution to Individual Shareholders of an S Corporation

NOTE: Form 312-S is available on the department's website.

Instructions for S corporations passing the credit to individual shareholders

- Enter the name of the S corporation and employer identification number at the top of Form 312-P.
- In the space provided, enter the individual shareholder's name, social security number, and ownership percentage.

Each individual shareholder is entitled to a *pro rata* share of the credit, based on his or her ownership percentage.

Line 1 -

Enter the individual shareholder's pro rata share of qualifying expenses based on ownership interest from Form 312, Part 2, line 6.

Line 2 -

Enter the individual shareholder's pro rata share of current year's credit based on ownership interest from Form 312, Part 2, line 10.

Instructions for Individual Shareholders receiving Form 312-S

- Enter the amount from Form 312-S, line 2, on your own Form 312, Part 2, line 9.

If you are claiming a pass-through credit from more than one S corporation, add all amounts from Forms 312-S and enter the total on Form 312, Part 2, line 9.