

2012 Enterprise Zone Credit

CONTACTS FOR ENTERPRISE ZONE CREDIT

Arizona Commerce Authority

Internet home page: www.azcommerce.com
 Program Manager (602) 845-1200

Department of Revenue

•tax forms and instructions •information and assistance
Internet home page: www.azdor.gov
 Taxpayer assistance (602) 255-3381
 From area codes 520 and 928, toll-free (800) 352-4090
 Hearing impaired TDD user
 Phoenix (602) 542-4021
 From area codes 520 and 928, toll-free (800) 397-0256

General Instructions

Note: Former Arizona Revised Statutes (ARS) §§ 43-1074 and 43-1161 are repealed effective from and after June 30, 2011. Laws 2012, Chapter 3, section 60 amended the previous savings clause and allows employers to claim and carryover the Enterprise Zone Credit, as long as the employer continues to meet all qualification and reporting requirements of the former statutes.

With a repeal date of June 30, 2011, tax years that began before the repeal date that established first year credits for tax year 2011 are allowed to establish second and third year credits for tax year 2012 and tax year 2013, respectively. Wages paid through the full tax year can be included in the calculation of the credit.

Taxpayers whose fiscal year began after June 30, 2011, can establish third year credits on their tax year 2012 return, if second year credits were established for tax year 2011. Wages paid through the full tax year can be included in the calculation of the credit.

All enterprise zone credits properly claimed can be carried forward for the respective five year carry forward period.

Former ARS §§ 43-1074 and 43-1161 provided nonrefundable individual and corporate income tax credits for net increases in qualified employment positions by a business located in a former enterprise zone.

The enterprise zone credit for qualified employment positions was repealed, effective July 1, 2011. A business must have been located within an enterprise zone and hired employees prior to July 1, 2011, in order to be eligible to claim second or third year credits for tax year 2012. Taxpayers whose tax year began July 1, 2011, or later will not qualify to claim second year enterprise zone tax credits for tax year 2012, but are eligible to claim third year credits. Carryovers of credits from previous tax years may be carried forward for the full five taxable year carryforward period.

If the documents filed with the Arizona Commerce Authority (Commerce) or the Arizona Department of Revenue contain materially false information, the taxpayer is ineligible for the enterprise zone tax credit and is subject to recovery of the

amount of enterprise zone tax credits allowed in preceding taxable years based on the false information, plus penalties and interest.

The enterprise zone credit is in lieu of the following credits, with respect to the same employment positions:

- The military reuse zone credit, under ARS § 43-1079 or ARS § 43-1167 (claimed on Arizona Form 306);
- The employment credit for healthy forest enterprises, under ARS § 43-1076 or ARS § 43-1162 (claimed on Arizona Form 332); and
- The credit for renewable energy industry, under ARS § 43-1083.01 or ARS § 43-1164.01 (claimed on Arizona Form 342).

The enterprise zone credit for qualified employment positions is equal to:

- One-third of the taxable wages paid to an employee in a qualified employment position, not to exceed \$1,000 per qualified employment position, in the second year of continuous employment.
- One-half of the taxable wages paid to an employee in a qualified employment position, not to exceed \$1,500 per qualified employment position, in the third year of continuous employment.

Note: To calculate the second and third year credits, include wages paid in the full 2012 taxable year.

Reporting requirements: Attach a copy of the letter received from Commerce stating that the taxpayer timely complied with the reporting requirements for that agency. A taxpayer must timely comply with the reporting requirements of both the Department of Revenue and Commerce in order to claim the credit. Do not use the 2012 Forms 304, 304-1 and 304-2 to claim the enterprise zone credit for prior taxable years.

Aggregate summary: This is a single Form 304 that combines the results of multiple business locations in former enterprise zone or zones. Taxpayers having multiple business locations must first complete separate Forms 304, 304-1 and 304-2 for each business location, whether those locations are in the same former enterprise zone or multiple former enterprise zones. Then, complete the aggregate summary Form 304. Do not complete aggregate summaries of Forms 304-1 and 304-2.

Taxpayers do NOT need to complete the following portions of the aggregate summary Form 304:

- Part I - Business Information
- Part III - Limited Liability Companies

Specific Instructions

Complete the name and taxpayer identification number section at the top of the form. Indicate the period covered by the taxable year. Attach the completed form and all supporting documentation 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 Internal Revenue Service individual taxpayer identification number. Taxpayers that fail to include their taxpayer identification number may be subject to a penalty.

Part I - Business Information

Lines 1 through 3 -

On lines 1, 2a, and 3, enter the name, address, and taxpayer identification number of the business location that is at a site located in a former enterprise zone. Enter the name of the former enterprise zone in which the business is located on line 2b.

Line 4 - Retail Sales of Tangible Personal Property

Answer the question on line 4. If the answer to this question is "Yes", the business is not eligible for an enterprise zone credit for any of its qualified employment positions.

ASSIGNED TO RETAIL means working more than 25 percent of an employee's time in one or more retail activities.

RETAIL ACTIVITIES means all activities persons operating a retail business normally engage in, including taking, filling, and billing orders, receiving and processing payment and shipping, stocking and delivering tangible personal property to the ultimate consumer, except drop shipments by a company acting on behalf of an unrelated company that has made a sale to a final consumer.

ZONE LOCATION means a single parcel or contiguous parcels of owned or leased land, the structures and personal property contained on the land, or any part of the structures occupied by a taxpayer.

Line 5 - Arizona Residency

Answer the question on line 5. If the answer to this question is "No", the business is not eligible for an enterprise zone credit for any of its otherwise qualified employment positions (second and third year) filled by employees who are not Arizona residents. Refer to Arizona Individual Income Tax Procedure ITP 92-1 for information on determining Arizona residency.

FORM 304-1

Complete a Form 304-1 for each employee hired at the former enterprise zone location before July 1, 2011, WHETHER OR NOT THE EMPLOYEE IS IN A QUALIFIED EMPLOYMENT POSITION.

Former ARS § 41-1525(B)(1) provided for the information requested in the Form 304-1 to be submitted in a form prescribed by the Department of Revenue and may include electronic media. The department will accept a hard copy spreadsheet that contains all the requested information or the information may be submitted on electronic media as a Microsoft Excel spreadsheet or pdf file on a CD-ROM or DVD. The chosen media must be Microsoft Windows compatible.

Regardless of the form, the information must be filed on or before the due date of the tax return including any extensions.

Taxpayers submitting the information on CD-ROM or DVD should attach a statement to Form 304 in the tax return that the information is being separately submitted in that format. The Forms 304-1 submitted on CD-ROM or DVD are part of the income tax return and are subject to the sworn statement on the return that they are true and correct to the best of the signer's knowledge and belief.

The CD-ROM or DVD should be labeled as Form 304-1 with the taxpayer's name, employer identification number, and taxable year and sent directly to:

Arizona Department of Revenue
Attn: Corporate Office Audit/EZ Credits
1600 West Monroe
Phoenix, AZ 85007

FORM 304-1, LINE 8 - List the employee's current date of hire.

FORM 304-1, LINES 9a AND 9b - Complete these lines if the employee was previously employed by the business (prior to the current employment).

FORM 304-1, LINE 10b - Enter the number of hours actually worked by the employee. Include paid time off for holidays, vacation, or sick. Do not include bonuses or over-time.

FORM 304-1, LINES 12a and 12b - On line 12a, enter the total amount of the insurance premium or membership cost provided for the employee. If the business is self-insured, list the total amount of a predetermined fixed cost for the employee for an insurance program that is payable whether or not the employee has filed claims. On line 12b, enter the total amount of the insurance premium or membership cost paid by the employer.

FORM 304-1, LINES 13a and 13b - Arizona's statutes do not require that the employee who is claimed in the second and third years of continuous employment be the same employee who was claimed in the first and second years of employment. Therefore, if one of the originally claimed new employees leaves employment, the business can claim the subsequent years' credits for another employee in a qualified employment position who is in the same year of continuous employment as the departed employee. If the original employee was counted as part of the 35 percent enterprise zone residency requirement, the substitute must have been a resident of an enterprise zone in the county in which the business is located *on the date of hire*. If the employee is being substituted for another employee, check the box on line 13a, and enter the date of substitution and check one box to indicate if the employee is a second year employee or a third year employee on line 13b.

FORM 304-2

List each employee in a qualified employment position before July 1, 2011. Do not list employees that are not in qualified positions.

FORM 304-2, COLUMN (c)

Include all wages in column (c) that were paid in the 2012 taxable year.

FORM 304-2, COLUMN (e)

Check this box to indicate the qualified employment positions for which the taxpayer is claiming the credit.

FORM 304-2, LINE 8

The totals on line 8 must include only the qualified employment positions for which the taxpayer is claiming the credit. These employees would be listed on lines that have a checkmark in column (e).

FORM 304**Part II - Credit Calculation for Qualified Employment Positions**

The taxpayer may claim the second and third year credits for a qualified employment position only if the position continues to meet all of the requirements for a qualified employment position. The second year and third year credits are allowed only for qualified employment positions for which first year and second year credits were allowed and claimed by the taxpayer on the taxpayer's original tax returns for those taxable years.

Arizona's statutes do not require that the employee who is claimed in the second and third years of continuous employment be the same employee who was claimed in the first and second years of employment. Therefore, if one of the originally claimed new employees leaves employment, the business can claim the subsequent years' credits for another employee in a qualified employment position who is in the same year of continuous employment as the departed employee. If the original employee was counted as part of the 35 percent enterprise zone residency requirement, the substitute must have been a resident of an enterprise zone in the county in which the business is located *on the date of hire*.

Line 6 - Column (a)

Enter the total number of employees in qualified employment positions in the second year of continuous employment from Form 304-2, line 8, column (b)2. This number can never exceed the number of qualified first year employees for which a credit was claimed in the immediately preceding tax year.

Line 6 - Column (b)

Enter the total maximum allowable wages for employees in qualified employment positions in the second year of continuous employment, from Form 304-2, line 8, column (d)2.

Line 6 - Column (d)

Multiply the amount shown on line 6, column (b), by the percent shown on line 6, column (c). Enter the result on line 6, column (d). This is the allowable credit for employees in qualified employment positions in their second year of continuous employment.

Line 7 - Column (a)

Enter the total number of employees in qualified employment positions in the third year of continuous employment from Form 304-2, line 8, column (b)3. This number can never exceed the number of qualified second year employees for which a credit was claimed in the immediately preceding tax year.

Line 7 - Column (b)

Enter the total maximum allowable wages for employees in qualified employment positions in the third year of continuous employment from Form 304-2, line 8, column (d)3.

Line 7 - Column (d)

Multiply the amount shown on line 7, column (b), by the percent shown on line 7, column (c). Enter the result on line 7, column (d). This is the allowable credit for employees in qualified employment positions in their third year of continuous employment.

Line 8 -

Add the numbers in column (a) on lines 6 and 7. Enter the total in column (a) on line 8. The number shown on line 8, column (a), is the total number of employees in qualified employment positions for which the enterprise zone credit is being claimed.

Add the amounts in column (d) on lines 6 and 7. Enter the total in column (d) on line 8. The amount shown on line 8, column (d), is the total allowable enterprise zone credit for qualified employment positions for the current taxable year.

Part III - Limited Liability Companies

This portion of Form 304 must be completed if the business is a limited liability company. See Arizona Corporate Tax Ruling CTR 97-1 or Arizona Partnership Tax Ruling PTR 97-1 for further information regarding Arizona's treatment of the federal "check-the-box rules". See Arizona Corporate Tax Ruling CTR 97-2 or Arizona Partnership Tax Ruling PTR 97-2 for further information regarding the Arizona tax treatment of a limited liability company.

Part IV - S Corporation Credit Election and Shareholder's Share of Credit**Line 10 -**

An S corporation must make an irrevocable election to either claim the credit itself 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. If the S corporation elects to claim the credit itself, it can skip lines 11 through 13 and complete Parts VI and VII.

Lines 11 through 13 -

If the S corporation elects to pass the credit through to its shareholders, it must complete lines 11 through 13 separately for each shareholder.

Each S corporation shareholder is entitled to only a pro rata share of pass-through credit based on ownership interest in the S corporation. The total of the credit allowed to all shareholders may not exceed the amount that would have been allowed for a sole owner.

The S corporation must furnish each shareholder with a copy of pages 1, 2 and 3 of Form 304. Each shareholder must complete Parts VI and VII.

Part V - Partner's Share of Credit

Lines 14 through 16 -

Complete Part V, lines 14 through 16, separately for each partner.

Each partner is entitled to only a pro rata share of the credit based on the partner's ownership interest in the partnership. The total of the credit allowed to all partners may not exceed the amount that would have been allowed for a sole owner.

The partnership must furnish each partner with a copy of pages 1, 2 and 3 of Form 304. Each partner must complete Parts VI and VII.

Taxpayers who are partners or shareholders in multiple entities operating in former enterprise zones must complete a schedule detailing the amount of the credit passed through from each partnership or S corporation, and attach the schedule to their tax returns.

Part VI - Available Credit Carryover

The taxpayer who is utilizing the credit carryover should complete Part VI only if its allowable enterprise zone tax credit for qualified employment positions for prior taxable years exceeded its Arizona income tax liability for those taxable years.

PARTNERSHIPS AND S CORPORATIONS THAT ELECTED TO PASS THE CREDIT THROUGH TO THEIR SHAREHOLDERS: A partnership or an S corporation that passed the credit through to its partners or shareholders must furnish each partner or shareholder with a statement indicating that the business is still located in the former enterprise zone.

Enter the taxable year(s) from which you are carrying over the credit on line 17 in columns (a) through (e). On line 18, enter the credit originally computed for that taxable year. On line 19, enter the amount of the credit from that taxable year already used. Subtract the amount on line 19 from the amount on line 18 and enter the difference on line 20.

On line 21, enter the amount of the credit that is unallowable because the business is no longer located at the location that formerly was in an enterprise zone. Subtract the amount entered on line 21 from line 20, and enter the difference on line 22.

Line 23 -

Add the amounts from columns (a) through (e) on line 22 and enter the total in column (f) on line 23. This is the total enterprise zone credit carryover available from prior taxable years.

Part VII - Total Available Credit

Line 24 -

Individuals and corporations (including S corporations that elected to claim the credit) - enter the amount from Part II, line 8, column (d).

S corporation shareholders - enter the amount from Part IV, line 13.

Partners of a partnership - enter the amount from Part V, line 16.

This is the current year's credit for qualified employment positions.

Line 25 -

Enter the amount from Part VI, line 23, column (f). This is the total available credit carryover for qualified employment positions.

Line 26 -

Add lines 24 and 25. This is the total available enterprise zone credit for qualified employment positions that may be applied to the current year's tax liability.

Corporations and S corporations - enter the total here and on Form 300, Part I, line 1.

Individuals - enter the total here and on Form 301, Part I, line 1.