

2002 Enterprise Zone Credit

Obtain additional information or assistance, tax forms and instructions, and copies of tax rulings and tax procedures by contacting one of the numbers listed below:

Phoenix	(602) 255-3381
From area codes 520 and 928, toll-free	(800) 352-4090
Form Orders	(602) 542-4260
Forms by Fax	(602) 542-3756
Recorded Tax Information	
Phoenix	(602) 542-1991
From area codes 520 and 928, toll-free	(800) 845-8192
Hearing impaired TDD user	
Phoenix	(602) 542-4021
From area codes 520 and 928, toll-free	(800) 397-0256

Obtain tax rulings, tax procedures, tax forms and instructions, and other tax information by accessing the department's Internet home page at:

www.revenue.state.az.us

General Instructions

If you have questions about where enterprise zones are located, contact the Arizona Department of Commerce Enterprise Zones Administrator at (602) 280-1341.

CARRYOVER OF CREDITS FOR QUALIFIED EMPLOYEES AND DISLOCATED WORKERS: Taxpayers that claimed the credits for qualified employees and dislocated workers in prior taxable years may only claim the available credit carryover under those provisions. The taxable year 2002 return is the last taxable year in which the taxpayer may claim unused credit carryovers for these credits.

Highlights of Enterprise Zone Credit for Qualified Employees and Dislocated Workers for Taxable Years Beginning From and After December 31, 2001

- Credit carryover allowed (maximum of 5 taxable years) during life of enterprise zone program unless business relocates outside of enterprise zone. A business located in an enterprise zone that is terminated may claim its credit carryover, if the business remains at the location that was formerly in an enterprise zone. (See instruction page 2.)

How to Claim the Available Carryover of These Credits:
Complete Parts I through III and Part XIII of Form 304.

CREDIT FOR QUALIFIED EMPLOYMENT POSITIONS: This credit applies to taxable years beginning from and after December 31, 1995. The credit is for net increases in qualified employment positions by a business located in an enterprise zone.

EXCEPTION EFFECTIVE FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2001: No credit is allowed for those positions at a business location where more than 10 percent of the business conducted at the location consists of selling tangible property at retail, measured by EITHER the number of employees assigned to retail OR the square footage of the facility used for retail transactions at the location in the enterprise zone. Retail activity allowable at the zone location (that does not exceed 10 percent) is limited solely to the following activities:

- Products manufactured, fabricated or otherwise produced at the location.
- Food and beverage for consumption on the premises solely by employees and occasional guests of employees at the location.
- Promotional products displaying the company logo or trademark.

The enterprise zone credit for qualified employment positions is scheduled to expire July 1, 2006, unless the enterprise zone program is extended by the Arizona Legislature. A business must be located within an enterprise zone *prior to July 1, 2006*, in order to be eligible for the enterprise zone credit for qualified employment positions.

Highlights of Enterprise Zone Credit for Qualified Employment Positions for Taxable Years Beginning From and After December 31, 2001

- Credit allowed for net increases in qualified employment positions by a business located in an enterprise zone. **EXCEPTION:** No credit allowed for positions at a business location where more than 10 percent of the business conducted at the location consists of selling tangible personal property at retail, measured by EITHER the number of employees assigned to retail OR the square footage of the facility used for retail transactions at the location in the enterprise zone. Retail activity allowable at the zone location (that does not exceed 10 percent) is limited solely to the following activities:
 - (a) Products manufactured, fabricated or otherwise produced at the location.
 - (b) Food and beverage for consumption on the premises solely by employees and occasional guests of employees at the location.
 - (c) Promotional products displaying the company logo or trademark.
- Employees in qualified employment positions must be Arizona residents.
- Maximum allowable credit per qualified employment position is \$500 for first year, \$1,000 for second year, and \$1,500 for third year.
- Credit carryover allowed (maximum of 5 taxable years) during life of enterprise zone program unless business relocates outside of enterprise zone.
- A business located in an enterprise zone that is terminated may claim its second and third year credits and its credit carryover, if the business remains at the location that was formerly in an enterprise zone and otherwise qualifies for the credit.
- Business must be located in an enterprise zone prior to July 1, 2006, to be eligible for the credit.
- Thirty-five percent of employees in qualified employment positions for which the first year credit is claimed must be residents of an enterprise zone within the county in which the business is located.

How to Claim This Credit:
Complete Parts IV through XIII of Form 304 and Forms 304-1 and 304-2. See the instructions on page 3 regarding the filing due date and new reporting requirements.

NOTE: Use the 2002 Forms 304, 304-1 and 304-2 to claim the enterprise zone credit on the 2002 tax return. Do not use this form for prior taxable years.

Specific Instructions

Enter the taxpayer name and federal employer identification number or social security number as shown on the tax return. Indicate the period covered by the taxable year (in an MM/DD/YYYY format). Attach the completed forms 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, partnership, or an S corporation is the taxpayer's federal 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.

Enterprise Zone Credits for Qualified Employees and Dislocated Workers

Effective for taxable years beginning from and after December 31, 1995: Taxpayers were allowed to claim the enterprise zone credits for previously qualified employees and previously dislocated workers in the second or third year of continuous employment if the taxpayer claimed the first year or second year credit for such employees for a taxable year beginning prior to January 1, 1996. Effective for taxable years beginning from and after December 31, 1997, taxpayers may only claim the available carryover of tax credits for previously qualified employees and previously dislocated workers.

Taxpayers claiming only the carryover of enterprise zone credits for qualified employees and dislocated workers, complete Parts I through III and Part XIII of Form 304.

Part I - Business Information

Lines 1 through 3 -

On lines 1, 2 and 3, enter the name, address, Arizona withholding number, and federal employer identification number of the business which is at a site located in an enterprise zone.

On line 2, enter the address of the business' actual location in the enterprise zone, not the business' mailing address.

NOTE: Complete a separate Form 304 for each business location in an enterprise zone for which a tax credit is being claimed. If a business has more than one business location in a designated enterprise zone, it must complete a separate Form 304 for each location within that zone. If a business has more than one business location in Arizona and the business locations are in different enterprise zones, it must complete separate Forms 304 for each business location in each enterprise zone.

Part II - Available Credit Carryover

The business should complete Part II only if its allowable enterprise zone tax credit for prior taxable years exceeded its

Arizona income tax liability for those taxable years. TAXABLE YEAR 2002 RETURNS: The available carryover of the credits for qualified employees and dislocated workers applies to unused tax credits from taxable years beginning from and after December 31, 1996 and before January 1, 1998.

NOTE: The business is allowed to carry forward the amount of the unused enterprise zone credit, for a period not to exceed five taxable years, provided the business remains in the enterprise zone. However, if the business relocates outside of the enterprise zone, the carryover of the tax credit is lost. A business located in an enterprise zone that is terminated may claim its credit carryover, if the business remains at the location that was formerly in an enterprise zone.

Partners of a partnership or shareholders of an S corporation should complete Part II only if their allowable enterprise zone tax credit for prior taxable years exceeded their Arizona income tax liability for those taxable years.

Line 4 -

Enter the applicable taxable year(s) in columns (a) through (e).

Line 5 -

In columns (a) through (e), enter the amount of the original tax credit earned for that taxable year.

Line 6 -

In columns (a) through (e), enter the amount of the tax credit for that taxable year which has been previously used.

Line 7 -

In columns (a) through (e), subtract the amount on line 6 from the amount on line 5. Enter the result in the applicable columns on line 7. This is the tentative carryover.

Line 8 -

In columns (a) through (e), enter the amount of the credit which is unallowable because the business is no longer located in the enterprise zone or is not at the location that formerly was in an enterprise zone.

Line 9 -

In columns (a) through (e), subtract the amount on line 8 from the amount on line 7. Enter the result in the applicable columns on line 9. This is the carryover available from prior taxable years.

Line 10 -

Add the amounts in columns (a) through (e) on line 9. Enter the total in column (f) on line 10. This is the total enterprise zone credit carryover available for the taxable year 2002.

In order for a partner of a partnership or a shareholder of an S corporation to be eligible for an enterprise zone credit carryover, the business must remain in the enterprise zone or at the location that was formerly in an enterprise zone. Therefore, 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 enterprise zone or is still at the location that was formerly in an enterprise zone.

Each partner or S corporation shareholder must complete Part II for the computation of the available carryover of the credit passed through by the partnership or S corporation.

Part III - Total Available Credit for Qualified Employees and Dislocated Workers

Line 11 -

Enter the amount from Part II, line 10, column (f). This is the total available enterprise zone credit for qualified employees and dislocated workers. Enter this amount on Part XIII, line 49.

NOTE: *If the business is claiming an enterprise zone credit carryover for more than one business location, the business should complete a summary Form 304 that lists the aggregate credit carryover. Attach a schedule which details the use of the carryover by location. Enter the aggregate credit carryover amounts on line 11.*

Enterprise Zone Credit for Qualified Employment Positions

ARS §§ 43-1074 and 43-1161 provide individual and corporate NONREFUNDABLE tax credits for net increases in qualified employment positions by a business located in an enterprise zone. This credit applies to taxable years beginning from and after December 31, 1995.

The Arizona Department of Commerce administers some of the provisions of the Arizona Enterprise Zones Program. Refer to ARS §§ 41-1521 through 41-1528 for further information regarding these provisions.

Refer to Corporate Tax Ruling CTR 02-5 and Partnership Tax Ruling PTR 02-1 for further information regarding the enterprise zone tax credit provisions effective for taxable years beginning from and after December 31, 2001.

NOTE: *A taxpayer participating in the enterprise zone credit program must certify certain information to the Arizona Department of Commerce. Contact the Arizona Department of Commerce Enterprise Zones Administrator at (602) 280-1341 regarding certification requirements or to obtain certification forms or copies of enterprise zone program guidelines.*

If the documents filed with the Arizona Department of 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.

Taxpayers claiming only the enterprise zone credit for qualified employment positions complete Parts IV through XIII of Form 304 and Forms 304-1 and 304-2.

The enterprise zone credit for qualified employment positions is scheduled to expire July 1, 2006, unless the enterprise zone program is extended by the Arizona Legislature. A business must be located within an enterprise zone *prior to July 1, 2006*, in order to be eligible for the enterprise zone credit for qualified employment positions.

Thirty-five percent of the employees in a qualified employment position for which the first year credit is claimed must be residents of an enterprise zone within the county in which the business is located on the date of hire. The employees in the new qualified employment positions must have been hired for taxable years beginning from and after December 31, 1995.

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

- One-fourth of the taxable wages paid to an employee in a qualified employment position, not to exceed \$500 per qualified employment position, in the first year or partial year of employment.
- 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.

If the allowable enterprise zone credit exceeds the taxpayer's income tax liability, the taxpayer may carry over any unused amount for up to five taxable years, providing the business remains in the enterprise zone. However, if the business relocates outside of the enterprise zone, the carryover of the tax credit is lost. A business located in an enterprise zone that is terminated may claim its credit carryover, if the business remains at the location that was formerly in an enterprise zone.

The enterprise zone credit for net increases in qualified employment positions is in lieu of:

- The military reuse zone credit, under ARS § 43-1079 or § 43-1167, with respect to the same employees; and
- The defense contracting credit, under ARS § 43-1077 or ARS § 43-1165, with respect to the same employees.

Filing due date: Refer to Arizona Corporation Tax Ruling CTR 02-5 or Arizona Partnership Tax Ruling PTR 02-1 for information regarding the filing due date for claiming this credit.

Reporting requirements: A taxpayer that does not timely comply with the reporting requirements to the Department of Revenue and the Department of Commerce is disqualified from the credit. Refer to Arizona Corporation Tax Ruling CTR 02-5 or Arizona Partnership Tax Ruling PTR 02-1 for further information. A taxpayer must attach a copy of the letter received from the Department of Commerce stating that the taxpayer timely complied with the reporting requirements for that agency.

Part IV - Business Information

NOTE: *Complete a separate Form 304 for each business location in an enterprise zone for which a tax credit is being claimed. If a business has more than one business location in a designated enterprise zone, it must complete a separate Form 304 for each location within that zone. If a business has more than one business location in Arizona and the business locations are in different enterprise zones, it must*

complete separate Forms 304 for each business location in each enterprise zone. If the taxpayer has multiple zone locations, the taxpayer must complete an aggregate summary Form 304. [The Forms 304-1 and 304-2 are completed only on a separate location basis.]

Lines 12 through 14 -

On lines 12, 13a, 13b, and 14, enter the name, zone location address, name of enterprise zone in which business is located, Arizona withholding number, and federal employer identification number of the business which is at a site located in an enterprise zone.

On line 13a, enter the address of the business' actual location in the enterprise zone, not the business' mailing address.

Line 15 - Sales of Tangible Personal Property at Retail

Answer the question on line 15. 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 (Part VII, lines 25 through 28 of Form 304).

Note for Form 120 filers: Taxpayers filing on a combined or consolidated basis should refer to Arizona Corporate Tax Ruling CTR 02-5 before answering this question.

The business is not eligible for the credit if more than 10 percent of the business consists of selling tangible personal property at retail at the business location in the enterprise zone, measured by EITHER the number of employees assigned to retail OR the square footage of the facility used for retail transactions at the location in the enterprise zone. A RETAIL SALE OF TANGIBLE PERSONAL PROPERTY IS A SALE OF TANGIBLE PERSONAL PROPERTY TO THE ULTIMATE CONSUMER. Retail activity allowable at the zone location (that does not exceed 10 percent) is limited solely to the following activities:

- Products manufactured, fabricated or otherwise produced at the location.
- Food and beverage for consumption on the premises solely by employees and occasional guests of employees at the location.
- Promotional products displaying the company logo or trademark.

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 orders, filling orders, 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.

NOTE: Complete a separate Form 304 for each business location in an enterprise zone for which a tax credit is being claimed. If a business has more than one business location in

a designated enterprise zone, it must complete a separate Form 304 for each location within that zone. If a business has more than one business location in Arizona and the business locations are in different enterprise zones, it must complete separate Forms 304 for each business location in each enterprise zone. If the taxpayer has multiple zone locations, the taxpayer must complete an aggregate summary Form 304. [The Forms 304-1 and 304-2 are completed only on a separate location basis.]

Part V - Net Increase in Average Number of Full Time Employees

The net increase in the number of full time employees is determined by comparing the average number of full time employees during the current taxable year with the average number of full time employees during the immediately preceding taxable year.

The net increase in average number of full time employees calculation includes all full time employees. It is not limited to full time employees in qualified employment positions. Full time employment means the position must be a minimum of 1,750 hours per year of regularly scheduled work hours. Do not include overtime hours in the minimum requirement computation.

Note for Form 120 filers: Taxpayers filing on a combined or consolidated basis should refer to Arizona Corporate Tax Ruling CTR 02-5 before completing Part V.

Lines 16 and 17 -

- **Line 16:** Enter the average number of full time employees during the current taxable year. A new full time employee is a newly hired employee who was not employed by the employer within the preceding 12 months. Include new full time employees who were employed for at least 90 days during the taxable year. EXCEPTION: Count a full time employee hired during the last 90 days of the taxable year as a new employee during the next taxable year. A qualified employment position that is filled during the last 90 days of the taxable year is considered to be a new qualified employment position for the next taxable year.
- **Line 17:** Enter the average number of full time employees during the immediately preceding taxable year. A newly established business in an enterprise zone would not have any full time employees within the zone during the immediately preceding taxable year. Such a business would have zero average full time employees during the immediately preceding taxable year. Therefore, such a business would enter zero on line 17 of the Form 304.

An established business already located in an area which subsequently becomes a designated enterprise zone would have full time employees at this location during the immediately preceding taxable year. This employer would calculate the average number of full time employees of the immediately preceding taxable year according to the worksheet on page 5 of the instructions. Line 15 of the worksheet's immediately preceding taxable year column is the amount which is entered on line 17 of the Form 304.

Complete the following worksheet to determine the average number of full time employees. On lines 1 through 12 of the worksheet, enter the number of full time employees employed at the end of each month by the business located in the enterprise zone.

Average Number of Full Time Employees Worksheet		Line 16 Column – Current Taxable Year	Line 17 Column – Immediately Preceding Taxable Year
1	January		
2	February		
3	March		
4	April		
5	May		
6	June		
7	July		
8	August		
9	September		
10	October		
11	November		
12	December		
13	Total – Add lines 1 through 12.		
14	Total number of months during the taxable year in which the employer was in business.		
15	Average – Divide the amount on line 13 by the amount on line 14. Do not round the quotient.		

Line 18 - Net Increase in Number of Full Time Employees

Subtract the amount on line 17 from the amount on line 16. If this amount is less than one, enter zero. If this amount contains a decimal, round down to the next whole number. This is the net increase in the number of full time employees for the current taxable year.

NOTE: If the amount shown on line 18 is zero, the business may not claim an enterprise zone credit for qualified employment positions created during the current taxable year. Do not complete the portion of Form 304-2 relating to first year credits. Enter zero on Part VI, line 23 of Form 304. Do not complete Part VII, line 25 of Form 304.

Part VI - Maximum Number of Qualified Employment Positions

Note for Form 120 filers: Taxpayers filing on a combined or consolidated basis should refer to Arizona Corporate Tax Ruling CTR 02-5 before completing Part VI.

Line 19 -

Enter the total number of qualified employment positions created during the taxable year. If a qualified employment position is filled during the last 90 days of the taxable year it is considered to be a new qualified employment position for the next taxable year. A newly created position is a qualified

employment position ON THE DATE that it meets ALL of the requirements for a qualified employment position.

A qualified employment position must meet **all** of the following requirements:

- The position must be a minimum of 1,750 hours per year of permanent full time employment. Do not include overtime hours in the minimum requirement computation.
- The position must include health insurance coverage for the employee for which the employer pays at least 50 percent of the premium or membership cost. If the taxpayer is self-insured, the taxpayer must pay at least 50 percent of a predetermined fixed cost per employee for an insurance program that is payable whether or not the employee has filed claims.
- The compensation paid by the employer for this position must at least equal the wage offer by county for a particular taxable year as computed annually by the Department of Economic Security Research Administration Division.

NOTE: Contact the Arizona Department of Commerce Enterprise Zones Administrator at (602) 280-1341 regarding the wage offer by county for a particular taxable year as computed annually by the Department of Economic Security Research Administration Division.

Line 20 -

Enter the net increase in the number of full time employees from Part V, line 18.

Line 21 -

Enter the smaller of line 19 or line 20. This is the maximum number of new qualified employment positions for which the business may claim a credit before application of the 35 percent enterprise zone residency requirement.

Application of 35 Percent Enterprise Zone Residency Requirement

Thirty-five percent of the new employees in qualified employment positions for which the first year credit is claimed must be enterprise zone residents. The employees in these positions must be residents of an enterprise zone within the county in which the business is located on the date of hire during the taxable year.

Line 22a -

Enter the number of new employees in qualified employment positions that are enterprise zone residents.

Line 22b -

Divide the amount on line 22a by 35 percent (.35). Enter the quotient. If this amount contains a decimal, round down to the next whole number.

Line 23 -

Determine which of the following situations apply before completing this line.

- A. Single enterprise zone location (if taxpayer files Form 120 on a separate company basis or taxpayer files Forms**

120A, 120S or 165): Enter the smaller of 200 or line 22c. [If the amount on line 22c is greater than 200, identify the qualified employment positions for which the taxpayer is claiming the first year credit by checking the box in column (e) on the Forms 304-2 for the zone location.] This is the maximum number of qualified employment positions for which the credit may be claimed.

NOTE: *The maximum number of qualified employment positions entered on Part VII, line 25, column (a), cannot exceed the number of qualified employment positions entered on Part VI, line 23.*

B. Multiple enterprise zone locations (if taxpayer files Form 120 on a separate company basis or taxpayer files Forms 120A, 120S or 165): If the aggregate amount for all zone locations (from line 22c) is equal to or less than 200, complete line 23 for each location as instructed on the form. NOTE: *The maximum number of qualified employment positions entered on Part VII, line 25, column (a), cannot exceed the number of qualified employment positions entered on Part VI, line 23 for that zone location.*

If the aggregate amount for all zone locations (from line 22c) is greater than 200, do not enter an amount on line 23 for the separate zone locations. Complete line 23 only on the aggregate summary Form 304. [Identify the qualified employment positions for which the taxpayer is claiming the first year credit by checking the box in column (e) on the Forms 304-2 for the separate zone locations.] NOTE: *Complete the Form 304-2 for each zone location listing each qualified employment position for which the credit is being claimed only after completing Part VI (through line 22c) and Part VII, line 24, of Form 304. The aggregate maximum number of qualified employment positions entered on Part VII, line 25, column (a) of the aggregate summary Form 304 cannot exceed the aggregate number of qualified employment positions entered on Part VI, line 23 of the aggregate summary Form 304.*

C. Taxpayer filing Form 120 on a combined or consolidated basis. TAXPAYER HAS A SINGLE ZONE LOCATION: Enter the smaller of 200 or line 22c. [If the amount on line 22c is greater than 200, identify the qualified employment positions for which the taxpayer is claiming the first year credit by checking the box in column (e) on the Forms 304-2 for the zone location.] This is the maximum number of qualified employment positions for which the credit may be claimed.

NOTE: *The maximum number of qualified employment positions entered on Part VII, line 25, column (a), cannot exceed the number of qualified employment positions entered on Part VI, line 23.*

TAXPAYER HAS MULTIPLE ZONE LOCATIONS: If the aggregate amount for all zone locations (from line 22c) is equal to or less than 200, complete line 23 for each location as instructed on the form. NOTE: *The maximum number of qualified employment positions entered on Part VII, line 25, column (a), cannot exceed the number of qualified employment positions entered on Part VI, line 23 for that zone location.*

If the aggregate amount for all zone locations (from line 22c) is greater than 200, do not enter an amount on line 23 for the

separate zone locations. Complete line 23 only on the aggregate summary Form 304. [Identify the qualified employment positions for which the taxpayer is claiming the first year credit by checking the box in column (e) on the Forms 304-2 for the separate zone locations.] NOTE: *The aggregate maximum number of qualified employment positions entered on Part VII, line 25, column (a) of the aggregate summary Form 304 cannot exceed the aggregate number of qualified employment positions entered on Part VI, line 23 of the aggregate summary Form 304.*

Part VII - Credit Calculation for Qualified Employment Positions

The enterprise zone credit for qualified employment positions applies only to taxable years beginning from and after December 31, 1995. The taxpayer may claim the first year credit only for employees in new qualified employment positions who were hired in taxable years beginning from and after December 31, 1995.

The taxpayer may claim the first, 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 compensation paid by the employer for the position must at least equal the wage offer by the county published for a particular taxable year beginning on the first day of the employer's taxable year to maintain eligibility for the second and third year credits.

A taxpayer located in an enterprise zone that is terminated may claim the second and third year credits for a qualified employment position, if the taxpayer remains at the location that was formerly in an enterprise zone and 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 a first year and second year credit was allowed and claimed by the taxpayer on the taxpayer's original tax return for those taxable years.

Line 24 - Arizona Residency

Answer the question on line 24. If the answer to this question is no, the business is not eligible for an enterprise zone credit for its qualified employment positions (lines 25 through 28) filled by employees who are not Arizona residents.

In order to claim the credit for qualified employment positions, each employee in a qualified employment position for which the credit is claimed must be a resident of Arizona. THE RESIDENCY REQUIREMENT APPLIES TO THE FIRST, SECOND, AND THIRD YEAR CREDITS. Refer to Arizona Individual Income Tax Procedure ITP 92-1 for information on determining Arizona residency.

Lines 25 through 28 and Forms 304-1 and 304-2

Complete Forms 304-1 and 304-2 before completing lines 25 through 28, Part VII of Form 304.

Complete a Form 304-1 for each employee at the zone location (whether or not the employee is in a qualified employment position).

FORM 304-1, LINE 7 – List the employee’s current date of hire.

FORM 304-1, LINE 8 – Complete this line if the employee was previously employed by the employer (prior to the current employment).

FORM 304-1, LINE 9a – A permanent position is a position that is not for a specified or limited period of time. A full time position must be 1,750 hours per year of regularly scheduled work hours. Do not include overtime hours in the minimum requirement computation.

FORM 304-1, LINE 11a – Enter the total amount of the insurance premium or membership cost 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.

FORM 304-1, LINE 11b – Enter the total amount of the insurance premium or membership cost for the employee paid by the employer. If the business is self-insured, list the total amount paid by the employer of a predetermined fixed cost for the employee for an insurance program that is payable whether or not the employee has filed claims.

FORM 304-1, LINE 13b – Refer to the instructions for the Form 304, Part VII, lines 26 and 27 for information regarding qualifications for substitution before answering this question.

FORM 304-2: Complete a separate form for each zone location listing each employee in a qualified employment position for which a credit is being claimed. All employees listed on the Form 304-2 must be Arizona residents. Requirements for listing an employee in a qualified employment position for which the business is claiming the first year credit are:

- The employee was hired at least 90 days prior to the end of the taxable year; and
- Wages entered in column (d1) are wages paid to the employee for the period of time during which the position met all of the requirements for a qualified employment position, up to a maximum of \$2,000.

Form 304-2, column (e): Check this box if the taxpayer is subject to the 200 qualified employment position limit for its first year credits. Identify the qualified employment positions for which the taxpayer is claiming the first year credit by checking the box in column (e) on the Forms 304-2 for each zone location.

Line 25 - Column (a)

Enter the number of new employees in qualified employment positions from Form 304-2, line 9, column (b1).

NOTE: *The maximum number of qualified employment positions entered on line 25, column (a), cannot exceed the number of qualified employment positions entered on Part VI, line 23.*

Line 25 - Column (b)

Enter the maximum allowable wages for all first year employees in qualified employment positions from Form 304-2, line 9, column (d1).

Line 25 - Column (d)

Multiply the amount entered on line 25, column (b), by the percent shown on line 25, column (c). Enter the result on line 25, column (d). This is the allowable credit for new qualified employment positions.

Line 26 - Column (a)

Enter the total number of employees in qualified employment positions in the second year of continuous employment from Form 304-2, line 9, column (b2).

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

A second year credit is allowed only for qualified employment positions for which a first year credit was allowed and claimed by the taxpayer on the taxpayer’s original tax return for that taxable year.

Line 26 - Column (b)

Enter the maximum allowable wages for all employees in qualified employment positions in the second year of continuous employment, from Form 304-2, line 9, column (d2).

Line 26 - Column (d)

Multiply the amount shown on line 26, column (b), by the percent shown on line 26, column (c). Enter the result on line 26, column (d). This is the allowable credit for employees in qualified employment positions in their second year of continuous employment.

Line 27 - Column (a)

Enter the total number of employees in qualified employment positions in the third year of continuous employment from Form 304-2, line 9, column (b3).

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

A third year credit is allowed only for qualified employment positions for which a first year and second year credit was

allowed and claimed by the taxpayer on the taxpayer's original tax return for those taxable years.

Line 27 - Column (b)

Enter the maximum allowable wages for all employees in qualified employment positions in the third year of continuous employment from Form 304-2, line 9, column (d3).

Line 27 - Column (d)

Multiply the amount shown on line 27, column (b), by the percent shown on line 27, column (c). Enter the result on line 27, column (d). This is the allowable credit for employees in qualified employment positions in their third year of continuous employment.

Line 28 -

Add the numbers in column (a) on lines 25, 26, and 27. Enter the total in column (a) on line 28. The number shown on line 28, 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 25, 26, and 27. Enter the total in column (d) on line 28. The amount shown on line 28, column (d), is the total allowable enterprise zone credit for qualified employment positions for the current taxable year.

Part VIII – Limited Liability Companies

This portion of the Form 304 must be completed if the business is a limited liability company. Refer to 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. Refer to Arizona Corporate Tax Ruling CTR 97-2 or Arizona Partnership Tax Ruling 97-2 for further information regarding the Arizona tax treatment of a limited liability company.

Part IX – S Corporation Credit Election and Shareholder's Share of Credit

Line 32 -

This portion of the Form 304 must be completed by the S corporation in order for the S corporation or its shareholders to claim the enterprise zone credit for qualified employment positions. The S corporation must make an irrevocable election either to claim the credit itself or to 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 33 through 35 -

If the S corporation elects to pass the credit through to its shareholders, it must also complete lines 33 through 35.

The S corporation must complete Form 304, Parts IV through VIII. Then, complete Part IX, lines 33 through 35, separately for each shareholder. The S corporation must furnish each shareholder with a copy of the completed Form 304.

NOTE: If the S corporation has multiple zone locations, it must complete an aggregate summary Form 304, Parts IV

through VIII. Then, complete Part IX, lines 22 through 35, separately for each shareholder. The S corporation must provide each shareholder a copy of the completed aggregate summary Form 304 and the completed Forms 304 for each zone location. The S corporation does not have to provide each shareholder with a copy of the Forms 304-1 and 304-2.

Each shareholder must complete Parts XI through XIII.

Part X – Partner's Share of Credit

Lines 36 through 38 –

The partnership must complete Form 304, Parts IV through VIII. Then, complete Part X, lines 36 through 38, separately for each partner. The partnership must furnish each partner with a copy of the completed Form 304.

NOTE: If the partnership has multiple zone locations, it must complete an aggregate summary Form 304, Parts IV through VIII. Then, complete Part IX, lines 22 through 35, separately for each partner. The partnership must provide each partner a copy of the completed aggregate summary Form 304 and the completed Forms 304 for each zone location. The partnership does not have to provide each partner with a copy of the Forms 304-1 and 304-2.

Each partner must complete Parts XI through XIII.

Part XI - Available Credit Carryover

The business should complete Part XI 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. This credit applies only to taxable years beginning from and after December 31, 1995; consequently, there is no available carryover of this credit from taxable years beginning prior to January 1, 1996.

NOTE: *The business is allowed to carry forward the amount of the unused enterprise zone credit, for a period not to exceed five taxable years, provided the business remains in the enterprise zone. However, if the business relocates outside of the enterprise zone, the carryover of the tax credit is lost. A business located in an enterprise zone that is terminated may claim its credit carryover, if the business remains at the location that was formerly in an enterprise zone.*

Partners of a partnership or shareholders of an S corporation should complete Part XI only if their allowable enterprise zone tax credit for prior taxable years exceeded their Arizona income tax liability for those taxable years. Since the enterprise zone credit for qualified employment positions applies only to taxable years beginning from and after December 31, 1995, there is no available carryover of this credit from taxable years beginning prior to January 1, 1996.

Line 39 -

Enter the applicable taxable year(s) in columns (a) through (e).

Line 40 -

In columns (a) through (e), enter the amount of the original tax credit earned for that taxable year.

Line 41 -

In columns (a) through (e), enter the amount of the tax credit for that taxable year which has been previously used.

Line 42 -

In columns (a) through (e), subtract the amount on line 41 from the amount on line 40. Enter the result in the applicable columns on line 42. This is the tentative carryover.

Line 43 -

In columns (a) through (e), enter the amount of the credit which is unallowable because the business is no longer located in the enterprise zone or is not at the location that formerly was in an enterprise zone.

Line 44 -

In columns (a) through (e), subtract the amount on line 43 from the amount on line 42. Enter the result in the applicable columns on line 44. This is the carryover available from prior taxable years.

Line 45 -

Add the amounts in columns (a) through (e) on line 44. Enter the total in column (f) on line 45. This is the total enterprise zone credit carryover for qualified employment positions available for the current taxable year.

Partners and S corporation shareholders:

A partner of a partnership or a shareholder of an S corporation is eligible for an enterprise zone credit carryover, if the business remains in the enterprise zone or at the location that was formerly in an enterprise zone. Therefore, 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 enterprise zone or is still at the location that was formerly in an enterprise zone.

Each partner or S corporation shareholder must complete Part XI for the computation of the available carryover of the credit passed through by the partnership or S corporation.

If the partner or shareholder has multiple partnership or S corporation interests, the taxpayer must complete an aggregate summary Form 304. The taxpayer should attach a schedule detailing the use of the credit carryover by location from each partnership or S corporation.

Part XII - Total Available Credit for Qualified Employment Positions**Line 46 -**

Individuals and corporations (including S corporations that elected to claim the credit) – Enter the amount from Part VII, line 28, column (d).

S corporation shareholders – Enter the amount from Part IX, line 35.

Partners of a partnership – Enter the amount from Part X, line 38.

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

Note: If the business is claiming the enterprise zone credit for more than one business location, the business should attach a separate schedule to the aggregate summary Form 304 which details the use of the credit by location. If the business is claiming an enterprise zone credit for qualified employment positions for more than one business location, enter the aggregate credit amounts on line 46.

NOTE FOR S CORPORATIONS: If the S corporation has elected to pass the enterprise zone credit for qualified employment positions through to its shareholders (refer to Part IX), enter zero.

Partners and S corporation shareholders:

If the partner or shareholder has multiple partnership or S corporation interests, the taxpayer must complete an aggregate summary Form 304 and attach copies of all Forms 304 received from the partnerships and S corporations.

Line 47 -

Enter the amount from Part XI, line 45, column (f). This is the total available credit carryover for qualified employment positions.

Note: If the business is claiming an enterprise zone credit carryover for more than one business location, the business should attach a separate schedule to the aggregate summary Form 304 which details the use of the credit carryover by location. If the business is claiming an enterprise zone credit carryover for more than one business location, enter the aggregate credit carryover amounts on line 47.

Partners and S corporation shareholders:

A partner of a partnership or a shareholder of an S corporation is eligible for an enterprise zone credit carryover, if the business remains in the enterprise zone or at the location that was formerly in an enterprise zone. Therefore, 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 enterprise zone or is still at the location that was formerly in an enterprise zone.

Each partner or S corporation shareholder must complete Part XI for the computation of the available carryover of the credit passed through by the partnership or S corporation.

If the partner or shareholder has multiple partnership or S corporation interests, the taxpayer must complete an aggregate summary Form 304. The taxpayer should attach a schedule detailing the use of the credit carryover by location from each partnership or S corporation.

Line 48 -

Add lines 46 and 47. This is the total available enterprise zone credit for qualified employment positions.

Part XIII - Total Available Credit for Qualified Employees, Dislocated Workers, and Qualified Employment Positions**Line 49 -**

Enter the total available credit for qualified employees and dislocated workers from Part III, line 11.

Line 50 -

Enter the total available credit for qualified employment positions from Part XII, line 48.

Line 51 -

Add lines 49 and 50. This is the total available enterprise zone credit for qualified employees, dislocated workers, and qualified employment positions which may be applied to the current year's tax liability. Enter the total here and on Form 300, Part I, line 2, or on Form 301, Part I, line 2.