

## 2016 Environmental Technology Facility 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](http://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 *Legal Research* then click on *Procedures or Rulings* and select a tax type from the drop down menu.

**Publications**

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

### General Instructions

*Arizona Revised Statutes (A.R.S.) §§ 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 *A.R.S. § 41-1514.02*. The amount of the credit is equal to 10% 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% of the Arizona income tax liability for the taxable year as determined without applying the credit.

The former Arizona Department of Commerce identified and certified new facilities of qualified environmental technology manufacturers, producers and processors for purposes of the credit. The certification program ran through June 30, 1996. However, the certification 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 those purposes.

To qualify under *A.R.S. § 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% 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% 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% 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.

You may claim a credit with respect to new qualifying construction within ten years after the start of the facility's initial construction. You qualify for the credit if you own or lease 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.

You can only claim the credit for items that are depreciable or amortizable assets. You have to subtract the amount of your credit from your basis in those assets. You can still take depreciation or amortization of your Arizona basis in the assets.

If the allowable tax credit exceeds 75% 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 fifteen taxable years as a credit against subsequent years' income tax liabilities.

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.

The credit is available to an exempt organization that is subject to corporate income tax on unrelated business taxable income (UBTI). The credit must result from the activities that generate UBTI.

### Credit Recapture

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 *A.R.S. § 41-1514.02*.

If a qualified environmental technology facility ceases to operate as an environmental manufacturing, producing or processing facility at some time during the first five years it has been in operation, you have to recapture part of the credit.

Any credit recapture will affect any carryover you may have on that credit. If you have to recapture 100% of the credit,

you will have no credit carryover. If you have to recapture a portion of the credit, you have to recapture the same portion of the carryover. How to figure the recapture of a portion of your credit is discussed in the specific instructions that follow.

### Specific Instructions

Complete 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 your tax return.

**NOTE:**

- All returns, statements, or other documents filed with the department must have the taxpayer's Employer Identification Number (EIN) or taxpayer identification number (TIN) indicated on them.
- Taxpayers who fail to include their EIN or TIN may be subject to a penalty.

Enter the certification number from the former Arizona Department of Commerce.

#### Part 1 - Schedule of Cost of Equipment or Property Used in Construction of Facility for Current Year and Current Taxable Year's Credit Calculation

**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, include a separate sheet.

In column (b), enter the amount of the cost.

**Lines 2 and 3 -**

Complete lines 2 and 3 as directed on the form.

#### Part 2 - Recapture of Environmental Technology Facility Credit

If the facility has been in operation for five years or more, you do not have to recapture credits you have already used to offset your tax liability. If it ceased to operate as required before five years had passed, you must recapture the credit you used by taking the total of all environmental technology facility credits you received before, and multiplying it by a percentage. The percentage depends on how long the facility had been operating as an environmental manufacturing, producing or processing facility. The recapture percentages are as follows:

How long between the time the facility was placed in service and the time it ceased to meet the credit requirements?	Recapture percentage
Less than one year	100 %
At least one year, but less than two years	80 %
At least two years, but less than three years	60 %
At least three years, but less than four years	40 %
At least four years, but less than five years	20 %

Use the appropriate percentage to complete Part 2 as instructed on the form.

#### Part 3 - S Corporation Credit Election and Shareholder's Share of Credit and Credit Recapture

The S corporation must complete this portion of Form 305 in order for the S corporation or its shareholders to claim this credit. The S corporation must make an irrevocable election either to claim the credit or to pass the credit through to its shareholders. The election statement on line 9 must be signed by one of the officers of the S corporation who is also a signatory to Arizona Form 120S.

If the S corporation elects to pass the credit through to its shareholders, it must first complete Form 305, Part 1 and then complete Part 3, lines 10 through 12, separately for each shareholder. If the S corporation has been notified of a credit recapture for a credit it passed through to its shareholders, it must also complete Part 2 and then Part 3, line 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 give each shareholder a copy of pages 1, 2 and 3 of Form 305. Each shareholder must complete Parts 5 (if Part 5 is applicable) through 7.

#### Part 4 - Partner's Share of Credit and Credit Recapture

**Lines 14 through 17 -**

The partnership must complete Part 1. Then, complete Part 4, lines 14 through 16, separately for each partner. If the partnership has been notified of a credit recapture, it must also complete Part 2 and then Part 4, line 17, 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 305. Each partner must complete Parts 5 (if Part 5 is applicable) through 7.

**Part 5 - Credit Recapture Summary**

Use lines 18 through 23 to determine whether you have any allowable credit remaining, even if you have to recapture some of it. Complete Part 5 as instructed on the form.

**Part 6 - Available Credit Carryover**

You may 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. Complete lines 24 through 39 if you claimed the credit on a prior year's return and your credit was more than 75% of your tax.

In column (a), enter the applicable taxable year(s) on lines 24 through 38. 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 that has been previously used. Subtract the amount in column (c) from the amount in column (b). Enter the difference in column (d). Add the amounts entered on lines 24 through 38, column (d). Enter the total on line 39, column (d). This is the total available credit carryover.

**Part 7 - Total Available Credit****Line 40 -**

Enter the current year's environmental technology facility credit.

*Individuals, corporations (including S corporations that elected to claim the credit at the corporate level), and exempt organizations with UBTI* - enter the amount from Part 1, line 3, column (b).

*S corporation shareholders* - enter the amount from Part 3, line 12.

*Partners of a partnership* - enter the amount from Part 4, line 16.

**Line 41 -**

Enter the amount of available credit carryover from Part 6, line 39, column (d).

**Line 42 -**

Add lines 40 and 41. This is the total available environmental technology facility credit that may be applied to the current taxable year's tax liability. Any amount in excess of 75% of the current year's tax liability must be carried forward to the next taxable year.

*Corporations, exempt organizations with UBTI, and S corporations* - enter the total here and on Arizona Form 300, Part 1, line 2, column (c).

*Individuals* - enter the total here and on Arizona Form 301, Part 1, line 2, column (c).