

2012 Military Reuse Zone Credit

CONTACTS FOR MILITARY REUSE ZONE CREDIT

Arizona Commerce Authority

•Application forms •Military Reuse Zone program guidelines

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

Arizona Revised Statutes (ARS) §§ 43-1079 and 43-1167 provide nonrefundable individual and corporate income tax credits for net increases in employment of full-time employees by a taxpayer in a military reuse zone, established under Title 41, chapter 10, article 3, of the Arizona Revised Statutes. These employees must be engaged primarily in providing aviation or aerospace services, or in manufacturing, assembling, or fabricating aviation or aerospace products.

There are two military reuse zones. The first, Williams Gateway Airport, was established on August 2, 1996. There is no available credit or carryforward before that date. The current zone designation expires in October 2016.

The second military reuse zone, Phoenix/Goodyear Airport, was established on December 10, 2002. There is no available credit or carryforward before that date. The current zone designation expires in December 2017.

A taxpayer that owns or leases income producing property located in a military reuse zone is eligible for the military reuse zone tax credit according to the terms and conditions prescribed by ARS §§ 43-1079 or 43-1167. To qualify for the tax incentive the taxpayer shall:

- Agree with the Arizona Commerce Authority (Commerce) in writing to furnish information relating to the amount of tax benefits the taxpayer receives for each taxable year in which the taxpayer claims the credit. If the taxpayer fails to provide the required information, Commerce shall immediately revoke the taxpayer's qualification and notify the Arizona Department of Revenue (Revenue).
- Enter into a memorandum of understanding with this state through Commerce containing employment goals. Each year in which the taxpayer claims the credit the taxpayer shall report in writing to Commerce its performance in achieving the goals. The memorandum shall contain provisions that allow:
 - a. Commerce to stop, readjust, or recapture all or part of the tax incentives provided to the taxpayer on noncompliance with the terms of the memorandum;

- b. Commerce to notify Revenue of the conditions of noncompliance; and
- c. Revenue to require the taxpayer to file appropriate amended tax returns reflecting the recapture of the tax credit.

The net increase in the number of employees shall be determined by comparing the taxpayer's average employment in the military reuse zone during the taxable year with the taxpayer's previous year's fourth quarter employment in the zone, based on the taxpayer's report to the Arizona Department of Economic Security for unemployment insurance purposes but considering only employment in the zone.

A credit is not allowed with respect to an employee whose place of employment is relocated by the taxpayer from a location in this state to the military reuse zone, unless the employee is engaged in providing aviation or aerospace services, or in manufacturing, assembling, or fabricating aviation or aerospace products, and the taxpayer maintains at least the same number of employees in this state but outside the zone.

The military reuse zone credit is in lieu of the following credits, with respect to the same employees:

- The enterprise zone credit, under former ARS § 43-1074 or former ARS § 43-1161 (claimed on Arizona Form 304);
- The credit for new employment, under ARS § 43-1074 or ARS § 43-1161 (claimed on Arizona Form 345);
- 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 amount of the credit is a dollar amount allowed for each new full-time employee. The amount per employee differs depending on whether the employee is a dislocated military base employee or another type of full-time military base employee. A "dislocated military base employee" means a civilian who previously had permanent full-time civilian employment on the military facility, at the date the closure of the facility was finally determined under federal law, as certified by Commerce. The credit amount per employee is as follows:

Year of employment	Amount of credit allowed per employee	
	Dislocated Employee	Non-dislocated Employee
1st	\$1,000	\$ 500
2nd	\$1,500	\$1,000
3rd	\$2,000	\$1,500
4th	\$2,500	\$2,000
5th	\$3,000	\$2,500

If the allowable tax credit exceeds the taxes otherwise due, or if there are no taxes due, the amount of the claim not used to offset the taxes may be carried forward as a credit against the five subsequent years' income tax liabilities if the business remains in the military reuse zone.

Co-owners of a business, including partners in a partnership and shareholders of an S corporation, may each claim only a pro rata share of the allowable credit based on the 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.

Aggregate summary: This is a single Form 306 that combines the results of multiple business locations in a military reuse zone or zones. Taxpayers having multiple business locations must first complete separate Forms 306, 306-1, 306-2, 306-3, and 306-4 for each business location, whether those locations are in the same military reuse zone or multiple military reuse zones. Then, complete the aggregate summary Form 306. Do not complete aggregate summaries of Forms 306-1 through 306-4.

Taxpayers do NOT need to complete the following portions of the aggregate summary Form 306:

- Part I - Business Information
- Part II - Net Increase in Employment
- Part III - Lines 8 through 11 (line 12 must still be completed)

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 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 TIN may be subject to a penalty.

Part I - Business Information

Lines 1 through 4 -

On lines 1 through 3, enter the business's name, its actual location in the zone (may not be its mailing address), and employer identification number. On line 4, enter the name of the military reuse zone in which the business is located.

NOTE: If there is more than one location in a military reuse zone, attach a schedule listing the name, location address, employer identification number, and zone of each location.

Part II - Net Increase in Employment

The military reuse zone credit is based on net increases in employment of full-time employees working in a military reuse zone. Whether there has been a net increase in employment is determined by comparing the average employment in the zone during the current taxable year with the prior year's fourth quarter employment in the zone. The prior year figure must be based on the employer's unemployment insurance report to the Arizona Department of Economic Security, limited to employment in the zone.

Line 5 -

Enter the average employment in the military reuse zone for the current taxable year. Complete the worksheet below to determine the average employment during the current taxable year.

On lines 1 through 12 below, enter the number of employees employed at the end of each month by the business located in the military reuse zone.

Average Full-Time Employment Worksheet		Line 5 Column – Current 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 – <i>Add lines 1 through 12.</i>	
14	Total number of months during the taxable year in which the employer was in business.	
15	Average – <i>Divide the amount on line 13 by the amount on line 14.</i>	

Line 6 -

Enter the previous year's fourth quarter employment. A newly established business in a military reuse zone that did not have any employment within the zone during the fourth quarter of the immediately preceding taxable year would enter zero.

An established business already located in an area that subsequently becomes a designated military reuse zone could have employment in the zone during the fourth quarter of the immediately preceding taxable year. This employer would enter their previous year's fourth quarter employment in the zone only, based on their report to the Arizona Department of Economic Security for unemployment tax purposes.

Line 7 -

Subtract the amount on line 6 from the amount on line 5. 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 employment.

Part III - Maximum Number of New Employees**Lines 8 through 12 and Form 306-1 and Form 306-3**

The maximum number of new employees for which the business may claim the military reuse zone credit is limited to the lesser of the total number of new employees or the net increase in employment. Complete Form 306-1 listing each dislocated military base employee in the first year of employment in the military reuse zone. Complete Form 306-3 listing each non-dislocated military base employee in the first year of employment in the military reuse zone.

Line 8 -

Enter the total number of new employees employed in the zone who are dislocated military base employees from the Form(s) 306-1.

Line 9 -

Enter the total number of new employees employed in the zone who are non-dislocated military base employees from the Form(s) 306-3.

Line 10 -

Add line 8 and line 9 and enter the total.

Line 11 -

Enter the net increase in employment from Part II, line 7.

Line 12 -

Enter the lesser of line 10 or line 11. This is the maximum number of new employees for which the business may claim the military reuse zone credit.

Part IV - Credit Calculation for Dislocated Military Base Employees

Before completing lines 13 through 18, complete the Form 306-2 listing each dislocated military base employee for whom the business is claiming a credit.

Arizona's statutes do not require that the dislocated military base employee who is claimed in a subsequent year of continuous employment be the same dislocated military base employee who was claimed in prior years of employment. Therefore, if one of the originally claimed new dislocated military base employees leaves employment after the first year, the business can claim subsequent years' credits for another dislocated military base employee. The substitute employee must be in the same year of employment as the departed employee.

Lines 13 through 17 -**Column (a) -**

Refer to the total numbers of employees shown in the columns of Form 306-2 to complete column (a) of Part IV. The maximum number of dislocated military base employees entered on line 13, column (a) cannot exceed the maximum number of new employees entered on Part III, line 12. If the business is claiming the military reuse zone credit for dislocated military base employees and non-dislocated military base employees, the total number of employees

claimed in both categories cannot exceed the maximum number of new employees from Part III, line 12.

The number of dislocated military base employees claimed in each year can never exceed the number of employees for which a credit was claimed in the immediately preceding tax year.

Column (c) -

Multiply the numbers shown on lines 13 through 17, column (a) by the amounts shown in column (b). Enter each result in column (c).

Line 18 -

Add the numbers on lines 13 through 17, in column (a). Enter the total on line 18 in column (a). The number shown on line 18, column (a), is the total number of dislocated military base employees for which the business is claiming the military reuse zone credit.

Add the amounts on lines 13 through 17 in column (c). Enter the total on line 18 in column (c). The amount shown on line 18, column (c) is the total allowable military reuse zone credit for dislocated military base employees for the current taxable year.

Part V - Credit Calculation for Non-Dislocated Military Base Employees

Before completing lines 19 through 24, complete the Form 306-4 listing each non-dislocated military base employee for whom the business is claiming a credit.

Lines 19 through 23 -**Column (a) -**

Refer to the total numbers of employees shown in the columns of Form 306-4 to complete column (a) of Part V. The maximum number of non-dislocated military base employees entered on line 19, column (a), cannot exceed the maximum number of new employees entered on Part III, line 12. If the business is claiming the military reuse zone credit for dislocated military base employees and non-dislocated military base employees, the total number of employees claimed in both categories cannot exceed the maximum number of new employees from Part III, line 12.

The number of non-dislocated military base employees claimed in each year can never exceed the number of non-dislocated military base employees for which a credit was claimed in the immediately preceding tax year.

Column (c) -

Multiply the numbers shown on lines 19 through 23, column (a) by the amounts shown in column (b). Enter each result in column (c).

Line 24 -

Add the numbers on lines 19 through 23, in column (a). Enter the total on line 24 in column (a). The number shown on line 24, column (a), is the total number of non-dislocated military base employees for which the business is claiming the military reuse zone credit.

Add the amounts on lines 19 through 23 in column (c). Enter the total on line 24 in column (c). The amount shown on line 24,

column (c) is the total allowable military reuse zone credit for non-dislocated military base employees for the current taxable year.

Part VI - S Corporation Credit Election and Shareholder's Share of Credit

Line 25 -

This portion of the Form 306 must be completed by all S corporations in order for the S corporation or its shareholders to claim the military reuse zone 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 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 26 through 29 and complete Parts VIII and IX.

Lines 26 through 29 -

If the S corporation elects to pass the credit through to its shareholders, it must complete lines 26 through 29 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 306. Each shareholder must complete Parts VIII and IX.

Part VII - Partner's Share of Credit

Lines 30 through 33 -

Complete Part VII, lines 30 through 33, 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 306. Each partner must complete Parts VIII and IX.

NOTE: Taxpayers who are partners or shareholders in multiple entities operating in military reuse 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 VIII - Available Credit Carryover

Lines 34 through 40 -

Use Part VIII to figure the total available credit carryover. Complete lines 34 through 40 if you claimed the credit on a prior year return and the credit was more than your tax.

Provided it maintains its businesses in the military reuse zone, a taxpayer may carry forward the amount of the unused military reuse zone credit for a period not to exceed five taxable years. However, if the taxpayer moves its business

outside of the military reuse zone or the military reuse zone is terminated, the carryover of the tax credit is lost. If a portion of its business is moved outside of the military reuse zone, the portion of the carryforward attributable to that portion of the business is lost.

Enter the taxable year(s) from which you are carrying over the credit on line 34 in columns (a) through (e). On line 35, enter the credit originally computed for that taxable year. On line 36, enter the amount of the credit from that taxable year already used. Subtract the amount on line 36 from the amount on line 35 and enter the result on line 37. On line 38, enter the amount of credit that is unallowable because the business is no longer located in the military reuse zone or the zone has been terminated. Subtract the amount entered on line 38 from line 37, and write the result on line 39.

Add the amounts in columns (a) through (e) on line 39. Enter the total in column (f) on line 40. This is the total military reuse zone credit carryover for the current taxable year.

Part IX - Total Available Credit

Line 41 -

Individuals and corporations (including S corporations that elected to claim the credit) - enter the current year's credit for dislocated military base employees from Part IV, line 18, column (c).

S corporation shareholders - enter the amount from Part VI, line 28.

Partners of a partnership - enter the amount from Part VII, line 32.

Line 42 -

Individuals and corporations (including S corporations that elected to claim the credit) - enter the current year's credit for non-dislocated military base employees from Part V, line 24, column (c).

S corporation shareholders - enter the amount from Part VI, line 29.

Partners of a partnership - enter the amount from Part VII, line 33.

Line 43 -

Enter the amount from Part VIII, line 40, column (f). This is the total available credit carryover.

Line 44 -

Add lines 41, 42, and 43. This is the total available military reuse zone credit that may be applied to the current taxable year's tax liability.

Corporations and S corporations - enter the total here and on Form 300, Part I, line 3.

Individuals - enter the total here and on Form 301, Part I, line 3.