

2005 Military Reuse Zone Credit

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General Instructions

ARS §§ 43-1079 and 43-1167 provide NONREFUNDABLE individual and corporate 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 and renewed for an additional five year period in 2001. There is no available credit or carryforward before those dates.

The second military reuse zone, Phoenix/Goodyear Airport, was established on December 10, 2002. Prior to that date, no credit or carryforward is allowed with respect to this zone.

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 Department of 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, the Arizona Department of Commerce shall immediately revoke the taxpayer's qualification and notify the Arizona Department of Revenue.
- Enter into a memorandum of understanding with this state through the Arizona Department of Commerce containing employment goals. Each year in which the taxpayer claims the credit the taxpayer shall report in writing to the Arizona Department of Commerce its performance in achieving the goals. The memorandum shall contain provisions that allow:

- the Arizona Department of 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;
- the Arizona Department of Commerce to notify the Arizona Department of Revenue of the conditions of noncompliance; and
- the Arizona Department of 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 ARS § 43-1074 or § 43-1161;
- The defense contracting credit, under ARS § 43-1077 or ARS § 43-1165, and
- The credit for healthy forest enterprises, under ARS § 43-1076 or § 43-1162.

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 the Arizona Department of 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 form 306 that combines the results of both military reuse zones. The maximum number of new employees, allowable credit, and credit carryforward calculations will all be the total allowed for both zones added together. There is no need for aggregate summaries of Forms 306-1 through 306-4. However, taxpayers must complete separate forms 306-1 through 306-4 for each military reuse zone.

Taxpayers do NOT need to complete Parts I through III of the aggregate summary Form 306, except for line 12 in Part III.

Specific Instructions

Write 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 IRS 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 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 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 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 not 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.

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 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 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 the S corporation 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. The S corporation must furnish each shareholder with a copy of the completed Form 306. Each shareholder must complete Parts VIII and IX.

Part VII - Partner's Share of Credit

Lines 30 through 33 -

Complete Part VIII, lines 30 through 33, separately for each partner. The partnership must furnish each partner with a copy of the completed 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

A taxpayer should complete Part VIII only if its allowable military reuse zone tax credit for prior taxable years exceeded its Arizona income tax liability for those taxable years.

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 businesses 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.

Line 34 -

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

Line 35 -

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

Line 36 -

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

Line 37 -

In columns (a) through (e), subtract the amount on line 36 from the amount on line 35. Enter the result in the applicable columns on line 37. This is the tentative carryover.

Line 38 -

In columns (a) through (e), enter the amount of the credit that is unallowable because the taxpayer's business is no longer located in the military reuse zone or the military reuse zone has been terminated.

Line 39 -

In columns (a) through (e), subtract the amount on line 38 from the amount on line 37. Enter the result in the applicable columns on line 39. This is the carryover available from prior taxable years.

Line 40 -

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. Enter the total here and on Form 300, Part I, line 4, or Form 301, Part I, line 4.