

2017 Military Reuse Zone Credit

CONTACTS FOR MILITARY REUSE ZONE CREDIT

Arizona Commerce Authority

•Application forms •Military Reuse Zone program guidelines

Website: www.azcommerce.com

Program Manager (602) 845-1200

Department of Revenue

•Tax forms and instructions •Information and assistance

Website: www.azdor.gov

Taxpayer assistance (602) 255-3381

From area codes 520 and 928, toll-free (800) 352-4090

General Instructions

This credit provides nonrefundable individual and corporate income tax credits for net increases in employment of full-time employees by a taxpayer in a military reuse zone. The employees must be engaged primarily in providing aviation or aerospace services, or in manufacturing, assembling, or fabricating aviation or aerospace products.

There are two Arizona military reuse zones:

- Phoenix-Mesa Gateway Airport, formerly Williams Gateway Airport, was established on August 2, 1996. The current zone designation expires in October 2026.
- Phoenix/Goodyear Airport, was established on December 10, 2002. The current zone designation expires in December 2027.

NOTE: Taxable year 2017 is the last year a taxpayer may establish this credit. All Military Reuse Zone credits properly established may be carried forward for the remainder of their five-year carry forward period.

A taxpayer that owns or leases income producing property located in a military reuse zone is eligible for this credit. To qualify, the taxpayer shall:

- Agree with the Arizona Commerce Authority (ACA) 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, ACA shall immediately revoke the taxpayer's qualification and notify the Arizona Department of Revenue (the department).
- Enter into a memorandum of understanding with this state through Commerce stating 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:
 - ACA to stop, readjust, or recapture all or part of the tax incentives provided to the taxpayer on noncompliance with the terms of the memorandum;
 - ACA to notify the department of the conditions of noncompliance; and
 - The department 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 credit for New Employment, claimed on Form 345;
- The employment credit for Healthy Forest Enterprises, claimed on Form 332; and
- The credit for Renewable Energy Industry, claimed on 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.

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.

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.

Aggregate summary

Taxpayers having multiple business locations must do the following:

- Complete separate Arizona 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 in multiple military reuse zones.
- Complete an aggregate summary of Form 306.
 - Do not complete aggregate summaries of Forms 306-1 through 306-4.
 - Taxpayers do NOT need to complete the following portions of an aggregate summary of Form 306:
 - Part 1 - Business Information
 - Part 2 - Net Increase in Employment
 - Part 3 – Lines 8 through 11 (line 12 MUST be completed)

NOTE: Part 3, line 12 MUST be completed.

NOTE – To claim this credit:

- **Individual taxpayers** - Complete this credit form and Arizona Form 301. Include both completed forms with your tax return.
- **C corporations, S corporations claiming this credit at the corporate level, and exempt organizations** - Complete this credit form and Arizona Form 300. Include both completed forms with your tax return.
- **S corporations electing to pass this credit through to its shareholders** - Complete this credit form and Arizona Form 300. Also, complete Form 306-S for each shareholder of the S corporation. Provide each shareholder a copy of his or her completed Form 306-S. Include Form 300, Form 306, and one copy of each completed Form 306-S with your tax return.
- **Partnerships** - Complete this credit form. Also, complete Form 306-P for each partner of the partnership. Provide each partner a copy of his or her completed Form 306-P. Include Form 306 and one copy of each completed Form 306-P with your tax return.

Specific Instructions

NOTE:

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

Part 1 - Business Information

Lines 1 through 4 -

On lines 1 through 3, enter the business's name, its physical location in the zone (not its mailing address), and EIN.

On line 4, enter the name of the military reuse zone in which the business is located.

Part 2 - 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.

- 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 -

Complete the worksheet below to figure the average employment during the current taxable year.

- For the business located in the military reuse zone, enter the number of employees employed at the end of each month on lines 1 through 12.
- For lines 13 through 15, follow the instructions on the worksheet.
- On Form 306, Part 2, line 5, enter the average employment in the military reuse zone for the current taxable year from line 15 of the worksheet below.

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 – 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.	

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, "0".

- 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 line 6 from the amount on line 5.

- If the difference is less than one, enter "0".
- If the difference is greater than one, enter the result. If the difference contains a decimal, round down to the next whole number.

This is the net increase in employment.

Part 3 - 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 Arizona Form 306-1 listing each dislocated military base employee in the first year of employment in the military reuse zone.

Complete Arizona 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 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 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 2, 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 4 - Credit Calculation for Dislocated Military Base Employees

Complete the Arizona Form 306-2 listing each dislocated military base employee for whom the business is claiming a credit before completing lines 13 through 20.

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.

- 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) -

Enter the total numbers of employees from Form 306-2, line 26, columns (c)1 through (c)5 in column (a) of lines 13 through 17.

- 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 3, line 12.
- If the business is claiming the military reuse zone credit for both the dislocated military base employees and the non-dislocated military base employees, the total number of employees claimed in both categories (Part 4, line 13, and Part 5, line 21) cannot exceed the maximum number of new employees from Part 3, 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 -

Enter the credit passed through from partnerships on Form(s) 306-P, line 4. If you received a pass through of this credit from more than one partnership, enter the total amount of the credit passed through from all partnerships.

Line 19 -

Enter the credit passed through from S corporations on Form(s) 306-S, line 4. If you received a pass through of this credit from more than one S corporation, enter the total amount of credit passed through from all S corporations.

Line 20 -

Add the amounts on lines 13 through 19 in column (c). Enter the total. *This is the total allowable military reuse zone credit for dislocated military base employees for the current taxable year.*

Part 5 - Credit Calculation for Non-Dislocated Military Base Employees

Before completing lines 21 through 28, complete the Arizona Form 306-4 listing each non-dislocated military base employee for whom the business is claiming a credit.

Lines 21 through 25 -

Column (a) -

Enter the total numbers of employees from Form 306-4, line 26, columns (c)1 through (c)5 in column (a) of lines 21 through 25.

- The maximum number of non-dislocated military base employees entered on line 21, column (a), cannot exceed the maximum number of new employees entered on Part 3, 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 (Part 4, line 13, and Part 5, line 21) cannot exceed the maximum number of new employees from Part 3, 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 21 through 25, column (a) by the amounts shown in column (b). Enter each result in column (c).

Line 26 -

Enter the credit passed through from partnerships on Form(s) 306-P, line 6. If you received a pass through of this credit from more than one partnership, enter the total amount of the credit passed through from all partnerships.

Line 27 -

Enter the credit passed through from S corporations on Form(s) 306-S, line 6. If you received a pass through of this credit from more than one S corporation, enter the total amount of the credit passed through from all S corporations.

Line 28 -

Add the amounts on lines 21 through 27 in column (c). Enter the total. *This is the total allowable military reuse zone credit for non-dislocated military base employees for the current taxable year.*

Part 6 - Partnerships

A partnership claiming this credit *must* pass it through to its partners. Skip to the instructions for completing Form 306-P on page 6.

- Complete Form 306-P for each partner.
- Provide a completed copy of Form 306-P to each partner.
- Include a copy of each completed Form 306-P with your tax return.
- Keep a copy of each completed Form 306-P for your records.
- Do not complete the remainder of this form.

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

NOTE: *Trusts and estates which are partners in a partnership are not eligible to claim this credit. However, the share of a partnership owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of the credit.*

Part 7 – S Corporation Credit Election and Shareholder’s Share of the Credit.

Line 29, 29a, & 29b – S Corporation Credit Election

The S corporation must complete line 29 and line 29a or line 29b. The S corporation must make an irrevocable election either to claim the current taxable year credit at the corporate level or to pass the credit through to its shareholders. The S corporation election is made by:

- Entering the date the S corporation taxable year ends in the box provided on line 29.
- Checking the box on line 29a electing to claim the current taxable year credit at the corporate level; or,
- Checking the box on line 29b electing to pass the current taxable year credit through to its shareholders.
- Having an officer of the S corporation who is also a signatory to Arizona Form 120S sign the election statement.

If the S corporation elects to claim the credit at the corporate level, continue to Part 8.

If the S corporation elects to pass this credit through to its shareholders, proceed to the instructions for completing Form 306-S on page 6.

If passing this credit through to the shareholders:

- Complete Form 306-S for each shareholder.
- Provide a copy of completed Form 306-S to each shareholder.
- Include a copy of each completed Form 306-S with your tax return.
- Keep a copy of each completed Form 306-S for your records.

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.

NOTE: *Trusts and estates which are shareholders of an S corporation are not eligible to claim these credits. However, the share of an S corporation owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of these credits.*

Part 8 - Available Credit Carryover

Lines 30 through 36 -

Use Part 8 to figure the total available credit carryover. Complete lines 30 through 35 if you claimed these credits on a prior year return and the total of the credits was more than your tax owed.

S corporations, if this credit was claimed at the corporate level in a prior taxable year and there is a carryover amount available, complete Part 8.

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. 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 the taxpayer's business is moved outside of the military reuse zone, the portion of the carryforward attributable to that portion of the business is lost.

Line 30 -

Enter the taxable year(s) from which you are carrying over the credit in columns (a) through (e).

Line 31 -

Enter the credit originally computed for that taxable year.

Line 32 -

Enter the amount of the credit previously used from that taxable year.

Line 33 -

Subtract line 32 from line 31. Enter the result.

Line 34 -

Enter the amount of credit that is disallowed because the business is no longer located in the military reuse zone or the zone has been terminated.

Line 35 -

Subtract line 34 from line 33. Enter the result.

Line 36 -

Add the amounts in columns (a) through (e) on line 35. Enter the total. This is the total military reuse zone credit carryover for the current taxable year.

Part 9 - Total Available Credit**Line 37 - Current Year's Credit for Dislocated Military Base Employees**

Individuals, C corporations, S corporations that elected to claim the credit at the corporate level, and exempt organizations with UBTI - enter the current year's credit for **dislocated military base employees** from Part 4, line 20, column (c).

Partnerships - enter "0".

S corporations that passed the current year credit for dislocated military base employees through to shareholders - enter zero, "0".

Line 38 - Current year's Credit for Non-Dislocated Military Base Employees

Individuals, C corporations, S corporations that elected to claim the credit at the corporate level, and exempt organizations with UBTI - enter the current year's credit for **non-dislocated military base employees** from Part 5, line 28, column (c).

Partnerships - enter "0".

S corporations that passed the current year credit for non-dislocated military base employees through to shareholders - enter "0".

Individuals - enter the total of lines 37 and 38 on Form 301, Part 1, line 3, column (a).

C corporations, S corporations that elected to claim the credit at the corporate level, and exempt organizations with UBTI - enter the total of lines 37 and 38 on Form 300, Part 1, line 3, column (a).

Line 39 - Available Credit Carryover

All taxpayers - enter the amount from Part 8, line 36, column (e). This is the total available credit carryover.

Line 40 - Total Available Credit

Add lines 37, 38, and 39. Enter the total. This is the total available military reuse zone credit that may be applied to the current taxable year's tax liability.

Individuals - enter the total. Also, enter the total on Form 301, Part 1, line 3, column (c).

C corporations, S corporations that elected to claim the credit at the corporate level, and exempt organizations with UBTI - enter the total. Also, enter the total on Form 300, Part 1, line 3, column (c).

Form 306-P, Partner's Portion of the Credit

Enter the taxable year from which this credit is being passed through to your partners.

Complete Form 306-P for each partner of the partnership, *except for* trust or estate partners. However, a partnership ownership share that is owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of the credit.

The partnership must furnish each partner with their completed copy of Form 306-P, including additional schedules as needed.

Part 1 - Partnership and Partner Information

Line 1 -

Enter the partnership name and EIN in the spaces provided

Line 2 -

Enter the partner's name, EIN, TIN, or SSN, and ownership percentage in the spaces provided.

Part 2 - Distribution of the Credit

Line 3 -

Enter the amount of the partnership's Credit for Dislocated Military Base Employees from Form 306, Part 4, line 20, column (c).

Line 4 -

Multiply line 3 by the ownership percentage on line 2, column (c). Enter the result. This is the partner's portion of the Credit for Dislocated Military Base Employees.

Line 5 -

Enter the amount of the partnership's Credit for Non-Dislocated Military Base Employees from Form 306, Part 5, line 28, column (c).

Line 6 -

Multiply line 5 by the ownership percentage on line 2, column (c). Enter the result. This is the partner's portion of the Credit for Non-Dislocated Military Base Employees.

Form 306-S, S Corporation Shareholder's Portion of the Credit

Enter the taxable year from which this credit is being passed through to your shareholders.

Complete Form 306-S for each shareholder of the S corporation, *except for* trust or estate shareholders. However, an S corporation ownership share that is owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of the credit.

The S corporation must furnish each shareholder with his or her completed copy of Form 306-S, including additional schedules as needed.

Part 1 - S corporation and Shareholder Information

Line 1 -

Enter the S corporation name and EIN in the spaces provided

Line 2 -

Enter the Shareholder's name, SSN, and ownership percentage in the spaces provided.

Part 2 - Distribution of the Credit

Line 3 -

Enter the amount of the S corporation's Credit for Dislocated Military Base Employees from Form 306, Part 4, line 20, column (c).

Line 4 -

Multiply line 3 by the percentage on line 2, column (c). Enter the result. This is the shareholder's portion of the Credit for Dislocated Military Base Employees.

Line 5 -

Enter the amount of the S corporation's Credit for Non-Dislocated Military Base Employees from Form 306, Part 5, line 28, column (c).

Line 6 -

Multiply line 5 by the ownership percentage on line 2, column (c). Enter the result. This is the shareholder's portion of the Credit for Non-Dislocated Military Base Employees.