

2021 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.

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 select *Reports & Legal Research* from the main menu, then click on *Legal Research* and select a Document Type and a Category from the drop down menus.

Publications

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General Instructions

A nonrefundable tax credit is available for expenses incurred in constructing a qualified environmental technology manufacturing, producing or processing facility. 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 amount of credit used cannot exceed 75% of the Arizona income tax liability for the taxable year as determined without applying the credit.

NOTE: *Taxable year 2019 was the last year an individual taxpayer could establish this credit. A partnership may not pass this credit through to its individual partners; it may, however, pass it through to its corporate partners. An S Corporation may not pass this credit through to its shareholders.*

If the allowable tax credit exceeds 75% of the taxes otherwise due on the return, 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.

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. 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, 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:
 - Sort, store, prepare, convert, fabricate, manufacture, or otherwise process finished products consisting of at least 90% recycled materials.

- Prepare, fabricate, manufacture, or otherwise process finished products that are powered exclusively with solar or other specific renewable energy.
- 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.
- 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. 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 must subtract the amount of your credit from your basis in those assets. You may still take depreciation or amortization of your remaining Arizona basis in the assets.

Corporate taxpayers:

See Arizona Administrative Code R15-2D-1001 for detailed information on record-keeping requirements and credit carryover reduction if the credit is recaptured.

Corporate partners in a partnership 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.

NOTE – To claim this credit:

- ***C Corporations, S Corporations claiming this credit at the corporate level, or exempt organizations with UBTI:*** Complete this credit form and Arizona Form 300, Nonrefundable Corporate Tax Credits and Recapture. Include both completed forms with your tax return.
- ***Partnerships passing this credit through to corporate partners -*** Complete this credit form and Form 305-P for each corporate partner of the partnership. Provide each corporate partner a copy of its completed Form 305-P. Include Form 305 and one copy of each completed Form 305-P with your tax return.

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.

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 must 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

- Indicate the period covered by the taxable year.
- Enter the taxpayer's name and taxpayer identification number in the spaces provided.
- Enter the certification number from the former Arizona Department of Commerce.

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.*

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.

Lines 1A through 1H

Column (a), describe the expenses incurred in constructing the new 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.

Column (b), enter the cost of the equipment or property listed in column (a).

Line 1I

Add lines 1A through 1H. Enter the total.

Line 1J

Enter the cost of equipment or property from additional schedules in column (b).

Line 2

Add line 1I and line 1J of column (b). Enter the total. This is the total cost of equipment or property used in construction of an environmental technology facility for the taxable year.

Line 3

Multiply line 2, column (b) by 10%. Enter the result.

Line 4

Enter the amount of this credit passed through from partnerships on Form(s) 305-P, line 3(c). If you received a pass through of this credit from more than one partnership, add the amounts on line 3(c) of all Forms 305-P and enter the total.

Line 5

Add lines 3 and 4. Enter the total. This is the current taxable year's Environmental Technology Facility Credit.

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 have passed, you must recapture the credit you used by taking the total of all environmental technology facility credits you received before, and multiply it by a percentage. The percentage depends on how long the facility had been operating as an environmental manufacturing, producing or processing facility.

Line 6a

Enter the Certification Number that was terminated or revoked.

Line 6b

Enter the date the facility was placed in service.

Line 7

Enter the date the facility ceased to operate as an environmental manufacturing, producing or processing facility.

Line 8

Enter the total amount of the credit you were previously allowed to claim in prior years for this facility.

Line 9

Enter the recapture percentage based on the number of years between when the facility was placed in service and when it ceased to meet the credit requirements. See the table on page 3 to determine the recapture percentage.

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 %

Line 10

Multiply line 8 by the percentage on line 9. Enter the result. This is the amount of credit recapture from taxpayer operations.

Line 11

Enter your portion of this credit subject to recapture from Form 305-P, Part 2, line 7.

Line 12

Add lines 10 and 11. Enter the total. This is the amount of the Environmental Technology Facility Credit subject to recapture for the current taxable year.

Also, enter this amount in Part 4, line 15.

Part 3 - Partnerships

A partnership claiming this credit *must* pass it through to its corporate partners. Skip to the instructions for completing Form 305-P on page 8.

- Complete Form 305-P for each corporate partner.
- Provide each corporate partner with a completed copy of their Form 305-P.
- Include a copy of each completed Form 305-P with your tax return.
- Keep a copy of each completed Form 305-P for your records.
- Do not complete the remainder of this form.

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

Part 4- Credit Recapture Summary

NOTE: *If you are a partnership that passed the credit through to corporate partners, do not complete Part 5. You will report the recapture to the partners on Form 305-P.*

Use lines 13 through 18 to determine how much of your previously claimed credit must be recaptured, and how much, if any, credit carryover remains.

Line 13

Enter the taxable year(s) in which you claimed a credit or credit carryover for the facility that has ceased to operate as an environmental manufacturing, producing or processing facility.

Line 14

Enter the total amount of credit originally determined for the facility.

Line 15

Enter the total amount of the credit to be recaptured from Part 2, line 12.

Line 16

Subtract line 15 from line 14. Enter the difference. This is the amount of credit allowable for the facility that has ceased to operate as an environmental manufacturing, producing or processing facility.

Line 17

Enter the total amount of credit on line 14 that you used on prior years’ returns.

Line 18

Subtract line 17 from line 16. Enter the difference.

If the difference is **POSITIVE**:

- *This is the amount of Environmental Technology Facility Credit carryover you have remaining for use in future years.*
- Adjust the amounts in Part 5, lines 19 through 33 column (d) so the total amount on line 34 equals the amount of the credit carryover remaining for use in future years.

If the difference is **NEGATIVE**:

- *This is the amount of Environmental Technology Facility Credit you must recapture.*
- Adjust the amounts in Part 5, lines 19 through 33, column (d), to “0”. There is no carryover amount remaining for this credit.
- *C Corporations, S Corporations that claimed this credit at the corporate level, and exempt organizations with UBTI: Enter this amount as a POSITIVE number on Form 300, Part 2, line 22.*

For additional guidance, refer to Examples 1 and 2 following the instructions for line 34.

Part 5 - 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. (See the *Credit Recapture* section beginning on page 1 for information on retaining your qualification as a qualified environmental technology facility.)

Complete lines 19 through 33 if you claimed the credit on a prior year’s return and your credit was more than 75% of your tax to determine whether you have any allowable credit remaining, even if you have to recapture some of it.

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 5.*

Lines 19 through 33

1. Enter the applicable taxable years in column (a).
2. Enter the amount of the original environmental technology facility credit for each taxable year in column (b).
3. Enter the amount of the credit for each taxable year that was previously used, expired or recaptured in column (c).

4. Subtract the amount in column (c) from the amount in column (b).
5. Enter the difference in column (d).

Line 34

Add the amounts entered in column (d) for lines 19 through 33. Enter the total. This is the total available credit carryover.

EXAMPLE 1 (In this example, line 18 is positive):

Environmental Technology Facility A (A) claimed the Environmental Technology Facility Credit on Form 305 for taxable years 2018 through 2020. The amount of credit claimed each year was \$1,000; the total credit claimed is \$3,000. A used \$1,500 of its environmental technology facility credit, leaving it with a credit carryover of \$1,500 as of taxable year ending 2020.

During 2021, A was notified by the department it was subject to a recapture of 60% of the credit claimed, or \$ 900.

A completes Part 5 of its Form 305 and finds that line 18 is **positive**. This means A still has a carryover of the environmental technology facility credit in the amount of \$600.

At the end of taxable year 2020, A had an available environmental technology facility credit carryover amount of \$1,500, shown on the schedule below (from Part 6 of its 2020 taxable year Form 305):

(a) Taxable Year	(b) Original Credit Amount	(c) Amount Previously Used	(d) Available Credit Carryover
2018	1,000	500	500
2019	1,000	500	500
2020	1,000	500	500
Total Available Carryover:			1,500

Following the instructions for lines 19 through 33, A adjusts Part 5, Available Environmental Technology Facility Credit Carryover, for the recapture of \$900. Part 5 of its 2021 taxable year Form 305 is shown below:

(a) Taxable Year	(b) Original Credit Amount	(c) Amount Previously Used, Expired, or Recaptured	(d) Available Credit Carryover
2018	1,000	1,000	0
2019	1,000	900	100
2020	1,000	500	500
Total Available Carryover			600

- A increased its 2018 Amount Previously Used (Or Recaptured) by \$500. This eliminated its credit carryover from 2017.
- A increased its 2019 Amount Previously Used (Or Recaptured) by \$400. This reduced its credit carryover for 2018 from \$500 to \$100.
- A's 2020 Available Environmental Technology Facility Credit Carryover remains unchanged.
- A has \$600 of Available Environmental Technology Facility Credit Carryover it may use on its 2021 taxable year tax return.

EXAMPLE 2 (In this example, line 18 is negative):

Environmental Technology Facility B (B) claimed the Environmental Technology Facility Credit on Form 305 for taxable years 2018 through 2020. The amount of credit claimed each year was \$1,000; the total credit claimed is \$3,000. During those years, B used \$2,500 of its environmental technology facility credit, leaving it with a credit carryover of \$500 as of taxable year ending 2020.

During 2021, B was notified by the department it was subject to a recapture of 60% of the credit claimed, or \$ 900.

B completes Part 5 of its Form 305 and finds that line 18 is **negative**. This means B has no carryover of the environmental technology facility credit and must report \$400 as a recapture on Form 300, Part 2, line 19. (See the instructions for line 18).

At the end of taxable year 2020, B had an available environmental technology facility credit carryover amount of \$500, shown on the schedule below (from Part 6 of its 2020 taxable year Form 305):

(a) Taxable Year	(b) Original Credit Amount	(c) Amount Previously Used	(d) Available Credit Carryover
2018	1,000	1,000	0
2019	1,000	1,000	0
2020	1,000	500	500
Total Available Carryover:			500

Following the instructions for lines 19 through 33, B adjusts Part 5 for the recapture of \$900. Part 5 of its 2021 taxable year Form 305 is shown below:

(a) Taxable Year	(b) Original Credit Amount	(c) Amount Previously Used Expired or Recaptured	(d) Available Credit Carryover
2018	1,000	1,000	0
2019	1,000	1,000	0
2020	1,000	1,000	0
Total Available Carryover			0

No adjustment is needed for 2018.

No adjustment is needed for 2019.

B increased its 2020 Amount Previously Used (Or Recaptured) by \$500. This eliminated its Environmental Technology Facility Credit carryover for 2020.

B has no credit carryover of the Environmental Technology Facility Credit.

Part 6 - Total Available Credit**Line 35**

C Corporations, S Corporations that elected to claim the credit at the corporate level, and exempt organizations with UBTI - enter the current year's environmental technology facility credit from Part 1, line 5, column (b).

Partnerships - enter "0".

C Corporations, S Corporations that elected to claim the credit at the corporate level, and exempt organizations with UBTI - Also, enter this amount on Form 300, Part 1, line 1, column (a).

Line 36

Enter the amount of available credit carryover from Part 5, line 34, column (d).

C Corporations, S Corporations that elected to claim the credit at the corporate level, and exempt organizations with UBTI - Also, enter this amount on Form 300, Part 1, line 1, column (b).

Line 37

Add lines 35 and 36. 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.

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 1, column (c).

Form 305-P, Distribution to Corporate Partners of a Partnership

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

Complete Form 305-P for each corporate partner of the partnership.

The partnership must furnish each corporate partner with their completed copy of Form 305-P, including additional schedules as needed.

NOTE: *Form 305-P is used to distribute the partnership's share of this credit to its corporate partners, or it is used to notify the corporate partners of the amount of the credit to be recaptured.*

Part 1 - Distribution of the Credit

To distribute the credit to the corporate partners of the partnership complete lines 1 through 3c.

Line 1 -

- a) Enter the partnership name.
- b) Enter the partnership's EIN.
- c) Enter the Certification Number for the facility from the former Arizona Department of Commerce.

Line 2 -

- a) Enter the corporate partner's name.
- b) Enter the corporate partner's TIN.

Lines 3a, 3b, and 3c -

- a) Enter the amount of this credit from Form 305, Part 1, line 5 for which this partnership was approved.
- b) Enter the corporate partner's ownership percentage.
- c) Multiply line 3(a) by line 3(b) and enter the result.

This is the corporate partner's portion of this credit.

Part 2 - Notification of Credit Recapture

To notify the corporate partners of the amount of the credit that must be recaptured (complete lines 4 through 7):

Line 4 -

- a) Enter the partnership name.
- b) Enter the partnership EIN.

Line 5 -

- a) Enter the corporate partner's name.
- b) Enter the corporate partner's TIN.

Line 6 -

- a) Enter the Certification Number that was terminated or revoked.
- b) Enter the date the Certification Number was terminated or revoked.

Line 7 -

Enter the total amount of the credit(s) previously passed through to the corporate partner for the facility(ies) whose certification was terminated or revoked.

This is the corporate partner's portion of the credit subject to recapture.

RECAPTURE OF THIS CREDIT PASSED THROUGH TO CORPORATE PARTNERS OF A PARTNERSHIP

If you passed this credit through to your corporate partners in a previous tax year and then received a notice from the Arizona Department of Revenue that your credit is subject to recapture during this year, you must pass the amount(s) subject to recapture through to your corporate partners that received the credit.

This credit was passed through to your corporate partners based on their ownership percentage (per year). The recapture amount is based on a percentage of the total credit passed through to all corporate partners. You will receive a notice of recapture from the department indicating the percentage of this credit that is subject to recapture. You must notify your corporate partners of their portion of this amount.

To notify your corporate partners of their respective amount(s) of this credit that is subject to recapture from them:

1. Determine the amount of credit passed through to each corporate partner for all years of the credit,
2. Multiply the amount on 1 (above) by the recapture percentage (provided by Arizona Department of Revenue),
3. Complete Part 2 of Form 305-P for each corporate partner informing him/her of the amount of this credit subject to recapture.

Example:

Partnership claimed this credit for four years, 1 through 4. Each year, Partnership claimed this credit in the amount of \$100,000. The total credit passed through to its corporate partners was \$400,000.

During the time Partnership claimed this credit, it had 5 Corporate Partners:

- Corporate partner A owned 20% of Partnership for each year, 1 through 5
- Corporate partner B owned 20% of Partnership for each year 1 through 5
- Corporate partner C owned 20% of Partnership for years 1 through 3; in year 4, Corporate partner C sold his ownership percentage of Partnership to Corporate partner D
- Corporate partner D owned 20% of Partnership for years 1 through 3; for years 4 and 5, Corporate partner D owned 40% of Partnership
- Corporate partner E owned 20% of Partnership for each year 1 through 5.

During year 5, Partnership received a notice from the Department indicating 40%, or \$160,000 of its credit is subject to recapture.

Using the 305-P forms it completed for years 1 through 4, Partnership determined it passed through the following amounts of credits to each of its corporate partners for these years:

Partner	Total Credit Passed Through
Corporate partner A	\$ 80,000
Corporate partner B	\$ 80,000
Corporate partner C	\$ 60,000
Corporate partner D	\$ 100,000
Corporate partner E	\$ 80,000
Total Credit	\$ 400,000

Multiplying each Partner’s amount of credit “passed through” by the recapture percentage, 40%, Partnership determined the credit amount(s) subject to recapture for each Corporate partner is:

Partner:	Credit Amount	Recapture %	Subject to Recapture
Corporate partner A	\$ 80,000	40%	\$ 32,000
Corporate partner B	\$ 80,000	40%	\$ 32,000
Corporate partner C	\$ 60,000	40%	\$ 24,000
Corporate partner D	\$ 100,000	40%	\$ 40,000
Corporate partner E	\$ 80,000	40%	\$ 32,000
Total Credit	\$ 400,000	40%	\$ 160,000

Partnership completed Form 305-P informing each corporate partners of the amount of this credit that is subject to recapture.