

**2008 Credit for Employment of TANF Recipients**

**Phone Numbers**

If you have questions, please call one of the following numbers:

Phoenix	(602) 255-3381
From area codes 520 & 928 toll-free	(800) 352-4090
Form orders	(602) 542-4260
Hearing impaired TDD user	
Phoenix	(602) 542-4021
From area codes 520 & 928 toll-free	(800) 397-0256

You may also visit our web site at: [www.azdor.gov](http://www.azdor.gov)

**General Instructions**

For taxable years beginning on or after January 1, 1998, Arizona law provides a credit for employers that employ recipients of Temporary Assistance for Needy Families (TANF). TANF is assistance granted under Section 403 of Title IV of the Social Security Act as it exists after August 21, 1996.

The credit for employing TANF recipients is equal to:

1. One-fourth of the taxable wages paid to each qualified employee in the first year or partial year of employment, not to exceed \$500 per net new employee.
2. One-third of the taxable wages paid to each previously qualified employee in the second year of continuous employment, not to exceed \$1,000 per net new employee.
3. One-half of the taxable wages paid to each previously qualified employee in the third year of continuous employment, not to exceed \$1,500 per net new employee.

You cannot take a deduction for the same wages for which you take a credit. You must add the amount of the credit figured for the taxable year to your Arizona gross income.

If the allowable credit exceeds your income tax liability, you may carry over any unused amount for up to five consecutive taxable years.

This credit is available to individuals, corporations and S corporations. A partnership may pass the credit through to its partners. An S corporation may also pass the credit through to its shareholders.

For more information on this credit, see Arizona Department of Revenue brochure, Pub 708, *Credit for Employment of Recipients of Temporary Assistance for Needy Families*. To get a copy of this brochure, visit our web site, or call one of the numbers listed above.

**Part I - Business Information**

**Lines 1 through 3 -**

On lines 1, 2 and 3, enter the name, address, and employer identification number of the business that employs qualifying employees.

**Part II - Net Increase in Qualified Employment Positions**

**Lines 4 and 5 -**

This credit is based on net increases in qualified employment positions. You must determine the net increase in the number of qualified positions by comparing the average number of qualified employment positions during the taxable year with the immediately preceding taxable year. This comparison is based on the report that you submit to the Arizona Department of Economic Security for unemployment purposes.

On line 4, enter the average number of qualified employment positions during the current taxable year. On line 5, enter the average number of qualified employment positions during the immediately preceding taxable year.

A qualified employment position is a position that meets all of the following.

- The position must be classified as full-time employment.
- The position must provide health insurance coverage if the employer offers the coverage to other employees not on TANF.
- The position must provide compensation equal to the minimum wage or a wage comparable to that paid other employees not receiving TANF in the same job classification.
- The position must be listed on the report that you submit to the Arizona Department of Economic Security for unemployment purposes.

If the business is a newly established business, the business would not have any qualified employment positions during the immediately preceding taxable year. A newly established business would have zero average employment positions during the immediately preceding taxable year. This business would enter zero on line 5 of the Arizona Form 320.

If the business is an established business, the business must figure the average qualified employment positions of the immediately preceding taxable year using the following worksheet. Line 15 of the worksheet's immediately preceding taxable year column is the amount you should enter on line 5 of the Arizona Form 320.

Complete the following worksheet to determine the average employment.

On lines 1 through 12 below, enter the number of qualifying employment positions the business had during each month of the current taxable year and the immediately preceding taxable year.

	Line 4 Column Current Taxable Year	Line 5 Column Immediately Preceding 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 you were in business.	
15	Average - Divide the amount on line 13 by the amount on line 14. Do not round the quotient.	

**Line 6 - Net Increase in the Number of Qualified Employment Positions**

Subtract line 5 from line 4. If this amount is less than one, enter zero. If this amount contains a decimal, round down to the next whole number. This is your net increase in qualified employment positions.

**NOTE:** If the amount shown on line 6 is zero or less, you may not claim this credit for qualified employees hired during the year.

**Line 7 -**

You cannot take this credit for any position that is eligible for any other Arizona employment credit based on wages paid. On line 7, enter the number of positions on line 6 that are eligible for any other income tax credit under Arizona law.

**Line 8 -**

Subtract line 7 from line 6. This is the maximum number of new employment positions for which you may claim a credit for employees in their first year of employment.

**Part III - Qualifying New Employees**

**Line 9 -**

Enter the total number of new employees hired during the year.

**Line 10 - Qualified New Employees**

Enter the number of employees shown on line 9 who are qualified employees.

A qualified employee is an employee who meets all of the following criteria.

- The employee is a resident of Arizona.
- The employee was a recipient of TANF at the time he or she was hired. The employer should obtain documentation from the employee substantiating that the employee was a TANF recipient on the date of hire.
- The employee was employed for at least ninety days during the first taxable year. An employee hired with less than 90 days left in the taxable year is considered to be a new employee in the next taxable year. Periods when the employee's wages are subsidized under Section 46-299 cannot be counted as employment time.
- The employee was not employed by the taxpayer within 12 months before the current date of hire.

**Line 11 - Maximum Number of Qualifying Net New Employees**

Enter the smaller of line 8 or line 10. This is the maximum number of qualified net new employees for which you may claim a credit.

**Part IV - Credit Calculation for Qualified Employees**

**Lines 12 through 15 and Arizona Form 320-1 and Arizona Form 320-2**

**Important:** Before completing lines 12 through 15, Part IV of Arizona Form 320, complete the Arizona Form 320-1 and Form 320-2.

**Form 320-1 Qualifying Employees**

List each employee who is a qualified employee. List each employee's name and social security number. Also list the date each employee was hired. You must also answer the questions in columns (d) and (e).

**Form 320-2 Qualifying Employees for Which You are Taking the Credit**

List each qualifying employee from Form 320-1 for whom you are taking the credit. List the employees' names and social security numbers. Complete columns (c) through (e) as instructed.

**Form 320 Line 12 - Column a**

Enter the number of qualifying net new employees from Arizona Form 320-2, line 12, column c1.

**NOTE:** The maximum number of qualifying net new employees entered on line 12, column (a), cannot exceed the number of qualified net new employees entered on line 11 (Part III).

**Line 12 - Column b**

Enter on line 12, column (b), the maximum allowable wages for all of your qualifying first year employees from Arizona Form 320-2, line 12, column e1.

**Line 12 - Column d**

Multiply the amount entered on line 12, column (b), by the percent shown on line 12, column (c). Enter this amount on line 12, column (d). This is the allowable credit for qualifying net new employees.

**Line 13 - Column a**

Enter the total number of previously qualified employees in the second year of continuous employment from Arizona Form 320-2, line 12, column c2.

**NOTE:** *The maximum number of previously qualified employees in the second year of continuous employment entered on line 13, column (a), cannot exceed the number of qualified net new employees entered on the 2007 Form 320, line 11 (Part III).*

Arizona's statutes do not require that the employee who is claimed in the second year of continuous employment be the same employee who was claimed in the first year of employment. Therefore, if one of the originally claimed net new employees leaves employment in year two, the business can claim the second year credit for another previously qualified employee who is in the second year of continuous employment.

**Line 13 - Column b**

Enter the maximum allowable wages for all previously qualified employees in the second year of continuous employment, from Arizona Form 320-2, line 12, column e2.

**Line 13 - Column d**

Multiply the amount shown on line 13, column (b), by the percent shown on line 13, column (c). Enter this amount on line 13, column (d). This is the allowable credit for previously qualified employees in their second year of continuous employment.

**Line 14 - Column a**

Enter the total number of previously qualified employees in the third year of continuous employment from Arizona Form 320-2, line 12, column c3.

**NOTE:** *The maximum number of previously qualified employees in the third year of continuous employment entered on line 14, column (a), cannot exceed the number of qualified net new employees entered on the 2006 Form 320, line 11 (Part III).*

Arizona's statutes do not require that the employee who is claimed in the third year of continuous employment be the same employee who was claimed in the second year of employment. Therefore, if one of the originally claimed net new employees leaves employment in year three, the business can claim the third year credit for another

previously qualified employee who is in the third year of continuous employment.

**Line 14 - Column b**

Enter the maximum allowable wages for all previously qualified employees in the third year of continuous employment from Arizona Form 320-2, line 12, column e3.

**Line 14 - Column d**

Multiply the amount shown on line 14, column (b), by the percent shown on line 14, column (c). Enter this amount on line 14, column (d). This is the allowable credit for previously qualified employees in their third year of continuous employment.

**Line 15 -**

Add the amounts in column (a) on lines 12, 13 and 14; enter the total in column (a) on line 15. Add the amounts in column (d) on lines 12, 13 and 14; enter the total in column (d) on line 15. The amount shown on line 15, column (a), is the total number of qualified employees for which you are claiming the credit. The amount shown on line 15, column (d), is the total allowable credit for qualified employees for the current taxable year.

**Part V - S Corporation Credit Election and Shareholder's Share of Credit****Line 16 -**

The S corporation must complete this portion of the Form 320 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 must be signed by one of the officers of the S corporation who is also a signatory to the Arizona Form 120S.

**Lines 17 through 19 -**

If the S corporation elects to pass the credit through to its shareholders, it must also complete lines 17 through 19.

S corporations must complete Form 320, Parts I through V. The S corporation must complete Part V, lines 17 through 19, separately for each shareholder. Each shareholder may claim only a pro rata share of the credit based on the shareholder's ownership interest in the S corporation. The S corporation must furnish each shareholder with a copy of the completed Form 320.

Each shareholder must complete Parts VII and VIII.

**Part VI - Partner's Share of Credit**

Partnerships must complete Form 320, Parts I through IV. Then complete Part VI, lines 20 through 22, separately for each partner. Each partner may claim only a pro rata share of the credit based on the partner's ownership interest in the partnership. The partnership must furnish each partner with a copy of the completed Form 320.

Each partner must complete Parts VII and VIII.

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**Part VII - Available Credit Carryover**

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**Lines 23 through 28 -**

Use Part VII to figure your total available credit carryover. Complete lines 23 through 28 if you claimed the credit on a prior year return and the credit was more than your tax.

In column (b), enter the credit originally computed for that taxable year listed in column (a). In column (c), enter the amount of the credit from that taxable year which you have already used. Subtract the amount in column (c) from the amount in column (b) and enter the difference in column (d). Add the amounts entered on lines 23 through 27 in column (d). Enter the total on line 28, column (d).

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**Part VIII - Total Available Credit**

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**Line 29 -**

Individuals, corporations, or S corporations claiming the credit, enter the amount from Part IV, line 15, column (d). S corporation shareholders, enter the amount from Part V, line 19. Partners of a partnership, enter the amount from Part VI, line 22.

**Line 30 -**

Enter the amount from Part VII, line 28, column (d).

**Line 31 -**

Add lines 29 and 30. Enter the total.

Individuals, also enter the total available credit on Arizona Form 301, Part I, line 12.

Corporations, also enter the total available credit on Arizona Form 300, Part I, line 9.