

2014 Credits for Healthy Forest Enterprises

**CREDITS FOR HEALTHY FOREST ENTERPRISES
CONTACT INFORMATION**

Arizona Commerce Authority

- Certification requirements
- Certification forms
- Program guidelines

Website: www.azcommerce.com

Program Manager (602) 845-1200

Arizona 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

Employment Credit for Healthy Forest Enterprises

Arizona Revised Statutes (A.R.S.) §§ 43-1076 and 43-1162 allow a business that operates a healthy forest enterprise to receive a nonrefundable employment credit against individual and corporate income tax liabilities for taxable years beginning from and after December 31, 2004 through December 31, 2024.

Training Credit for Healthy Forest Enterprises

A.R.S. §§ 43-1076.01 and 43-1162.01 allow a business that operates a healthy forest enterprise to receive a nonrefundable training credit against individual and corporate income tax liabilities for taxable years beginning from and after December 31, 2011 through December 31, 2024.

In order to claim either credit, the business must be a qualified healthy forest enterprise, as certified by the Arizona Commerce Authority (Commerce). The business must provide a copy of its Commerce certification to the department for approval before using the certification to obtain this credit.

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.

While a taxpayer may claim both credits for healthy forest enterprises with respect to the same employees, the credits for healthy forest enterprises are in lieu of the following credits, with respect to the same employees:

- The credit for new employment, under A.R.S. §§ 43-1074 or 43-1161 (claimed on Arizona Form 345); and
- The military reuse zone credit, under A.R.S. §§ 43-1079 or 43-1167 (claimed on Arizona Form 306).

In general, a qualified healthy forest enterprise is a business operation that enhances or sustains forest health, sustains or recovers watershed or improves public safety. A qualified healthy forest enterprise must be primarily engaged in the business of harvesting, transporting or processing of qualifying forest products for commercial use. To obtain information regarding additional criteria for qualification, contact Commerce using the contact information shown above.

The credits are based on the net increase in the number of qualified employment positions created and filled by a business operating a healthy forest enterprise.

The employment credit is computed using the wages of qualified employees of the business and the net increase in the number of qualified employment positions.

The training credit is based on the net cost to the taxpayer of training and certifying a new employee in a qualified employment position, but not more than \$3,000 in each of the first three years of employment.

Positions occupied by employees that meet the following criteria are considered qualified employment positions.

NOTE: *The business claiming a credit under a twelve month certification from Commerce must employ at least three new employees in qualified employment positions in the first taxable year in which the credits are claimed. This three position minimum does not apply to businesses first claiming the credit under a 60 month certification from Commerce.*

EMPLOYEES IN QUALIFIED POSITIONS

1. Must be Arizona residents on their hire date.
2. Must be permanent, full-time employees in positions that require at least 1,550 hours per year. The 1,550 hour requirement does not include overtime hours. If forest closures or weather conditions beyond the taxpayer's control result in a shorter period, this would not disqualify the employee so long as the position is still permanent and full-time, and all other qualifications are met.
3. Must have duties that primarily involve or directly support the harvesting, transporting or processing of qualifying forest products for commercial use.
4. Must be compensated at wages equal to or greater than the wage offer of the county, as computed annually by the Arizona Department of Economic Security research administration division.
5. Cannot have been employed by the business within the twelve months preceding their hire date.
6. Must have been employed for at least ninety days during the first taxable year. An employee who is hired during the last ninety days of the taxable year shall be considered a new employee during the following taxable year.
7. Must have employer-provided health insurance coverage, a portion of which must be paid for by the employer. The employer must pay for at least twenty-five percent of the premium or membership cost of the insurance program in the third year the employer claims the credit for healthy forest enterprises. The employer must pay at least forty percent of this cost in the fourth year it claims the credit, and at least fifty percent of the cost in the fifth year it claims the credit.

Calculating the Credits

The number of qualified employment positions on which the credits can be computed cannot exceed 200 per year per taxpayer. For example, if a taxpayer has several healthy forest enterprises, the taxpayer would add up the net increase in qualified employment positions for all enterprises and compute the credit on that number or 200, whichever is the lesser amount. If the net increase is being computed for a group of corporations filing a combined or consolidated

Arizona corporate income tax return, that group is considered a single taxpayer and therefore entitled to use no more than 200 positions for its credit calculations. Co-owners of the same enterprise(s) are similarly limited to the lesser of the net increase in qualified employment positions or 200. Each co-owner would get a pro rata share of the credits. Therefore, although a taxpayer may have more than 200 filled qualified employment positions, the taxpayer must select which of those positions should be used for computing the credits. The same employees who are used to compute the first year credit are used to compute the second and third year credits.

The number of qualified employment positions determined in the first year will never increase in the second or third year. Only the same positions that were qualified in the first year can be used to compute the credits in the two subsequent tax years.

Employment Credit for Healthy Forest Enterprises

Once the taxpayer has determined which employees it will use to compute the employment credit, the credit amount allowed per employee is applied. Only employee wages incurred during the period the taxpayer has been certified may be used for this calculation. The credit amount per employee depends on the employee’s year of employment, as follows.

First year employees: The lesser of \$500 or one-fourth of the taxable wages paid to an employee in a qualified employment position in the first year or partial year of employment.

Second year employees: The lesser of \$1,000 or one-third of the taxable wages paid to an employee in a qualified employment position in the second year of continuous employment.

Third year employees: The lesser of \$1,500 or one-half of the taxable wages paid to an employee in a qualified employment position in the third year of continuous employment.

Training Credit for Healthy Forest Enterprises

Once the taxpayer has determined which employees it will use to compute the training credit, the credit amount allowed per employee is applied. Only the net cost to the taxpayer of training and certifying the new employee incurred during the period the taxpayer has been certified may be used for this calculation. The credit amount per employee is the net cost to the taxpayer of training and certifying the employee, but not to exceed \$3,000 in each of the first three years of employment.

Credit Carryovers

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 credits 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.

Specific Instructions

Complete the name and taxpayer identification number section at the top of the form. Indicate the period covered by the taxable year. Include all supporting forms with the tax return.

All returns, statements, and other documents filed with the department require a taxpayer identification number (TIN). The TIN for a corporation, an exempt organization with UBTI, an 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 taxpayer identification number may be subject to a penalty.

Part 1 - Business Information

Lines 1 and 2 -

Enter the name and taxpayer identification number of the healthy forest enterprise. For a corporation, an exempt organization with UBTI, a partnership, or an S corporation, use the taxpayer's employer identification number.

Lines 3 through 5 -

Check only one box on each line to answer each of the questions on line 3, line 4, and line 5.

Part 2 - Average Number of Full-Time Employees

Use these lines to calculate the difference in the average number of full-time employees that worked for the healthy forest enterprise in this taxable year and the average for the immediately preceding taxable year. The following worksheet can be helpful in figuring the average. The column for each year corresponds to line 6 and line 7 on page 1 of Form 332.

On lines 1 through 12 of the worksheet, enter the number of full-time employees employed at the end of each month of the year indicated. If the enterprise was not in operation in the immediately preceding taxable year, that year’s average is zero. Once the worksheet has been completed, enter the amounts on page 1 of Form 332.

Average Number of Full-Time Employees Worksheet		
	Line 6 Current Taxable Year	Line 7 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 the healthy forest enterprise was in business.	
15	Average – divide the amount on line 13 by the amount on line 14.	

Line 8 -

Subtract the amount on line 7 from the amount on line 6. If the difference contains a decimal, enter the whole number only - do not round up. This is the net increase in the average number of full-time employees. If the difference is zero, the enterprise cannot claim an employment credit for qualified employment positions created during the current taxable year.

If the amount is greater than zero, enter the amount here and in Part 3, line 10.

Part 3 - Net Increase in Qualified Employment Positions

Lines 9 through 11 -

Enter the total number of filled qualified employment positions created during the current taxable year on line 9. If the business is claiming the employment credit under a twelve month certification, it must employ at least three new employees in qualified employment positions in the first taxable year it claims the credit. If a qualified employment position is filled during the last ninety days of the taxable year, it is considered a new qualified employment position for the next taxable year. A newly created position is a qualified employment position on the date that it meets all of the requirements for a qualified employment position.

Compare the amounts on lines 9 and 10. Enter the lowest of the numbers on line 11.

Part 4 - Limitation on Number of Qualified Employment Positions

Compare the amounts on lines 11 and 12. Enter the lower number on line 13. This is the maximum number of positions on which you may compute each of the credits.

NOTE: Before completing Part 5, lines 14 through 17, of Form 332, complete Forms 332-1 and 332-2. Use additional sheets, if necessary. See the instructions for Forms 332-1 and 332-2 at the end of these instructions.

Part 5 - Employment Credit Calculation

Line 14 - Column (a)

Enter the number of qualified net new employees from Form 332-2, line 15, column (c)1. This number cannot exceed the maximum number shown on line 13, Part 4 of Form 332.

Line 14 - Column (b)

Enter the total allowable wages for qualified first year employees from Form 332-2, line 15, column (e)1.

Line 14 - Column (d)

Multiply the amount entered on line 14, column (b) by the percent shown on line 14, column (c). Enter the result on line 14, column (d). This is the allowable credit for qualified new employees.

Line 15 - Column (a)

Enter the number of previously qualified employees in the second year of continuous employment from Form 332-2, line 15, column (c)2.

Line 15 - Column (b)

Enter the total allowable wages for qualified second year employees from Form 332-2, line 15, column (e)2.

Line 15 - Column (d)

Multiply the amount entered on line 15, column (b) by the percent shown on line 15, column (c). Enter the result on line 15, column (d). This is the allowable credit for previously qualified employees in their second year of continuous employment.

Line 16 - Column (a)

Enter the number of previously qualified employees in the third year of continuous employment from Form 332-2, line 15, column (c)3.

Line 16 - Column (b)

Enter the total allowable wages for qualified third year employees from Form 332-2, line 15, column (e)3.

Line 16 - Column (d)

Multiply the amount entered on line 16, column (b) by the percent shown on line 16, column (c). Enter the result on line 16, column (d). This is the allowable credit for previously qualified employees in their third year of continuous employment.

Line 17 -

Add the numbers on lines 14 through 16, in column (a). Enter the total on line 17 in column (a). Add the amounts on lines 14 through 16 in column (d). Enter the total on line 17 in column (d).

Before completing Part 6, lines 18 through 21, of Arizona Form 332, complete the Arizona Form 332-3. Use additional sheets, if necessary. See instructions for Form 332-3 at the end of these instructions.

Part 6 - Training Credit Calculation

Line 18 - Column (a)

Enter the number of qualified net new employees from Form 332-3, line 15, column (c)1. This number cannot exceed the maximum number shown on line 13, Part 4 of Form 332.

Line 18 - Column (b)

Enter the total net cost of training and certifying qualified first year employees from Form 332-3, line 15, column (e)1.

Line 19 - Column (a)

Enter the number of previously qualified employees in the second year of continuous employment from Form 332-3, line 15, column (c)2.

Line 19 - Column (b)

Enter the total net cost of training and certifying qualified second year employees from Form 332-3, line 15, column (e)2.

Line 20 - Column (a)

Enter the number of previously qualified employees in the third year of continuous employment from Form 332-3, line 15, column (c)3.

Line 20 - Column (b)

Enter the total net cost of training and certifying qualified third year employees from Form 332-3, line 15, column (e)3.

Line 21 -

Add the numbers on lines 18 through 20, in column (a). Enter the total on line 21 in column (a). Add the amounts on lines 18 through 20 in column (b). Enter the total on line 21 in column (b).

Part 7 - Recapture of the Employment Credit

Lines 22 through 27 -

If your healthy forest enterprise has had its qualification terminated or revoked within five taxable years after you first

claimed the employment credit for a healthy forest enterprise, you must recapture a percentage of the total employment credit you took in all prior years. How much credit you must recapture depends on the year you first received the credit, and how long ago it was. The percentage of credit you must recapture is shown in the following table.

If you first received the credit	The percentage is
Immediately preceding year	100% (1.00)
Two taxable years ago	80% (.80)
Three taxable years ago	60% (.60)
Four taxable years ago	40% (.40)
Five taxable years ago	20% (.20)
Six or more taxable years ago	No recapture

If the qualification was revoked due to reasons beyond the control of the business as determined by Commerce, you do not have to recapture the credit.

If you are required to recapture the employment credit, complete Part 7 as instructed on the form.

**Part 8 - Recapture of the Training Credit
Lines 28 through 33 -**

If your healthy forest enterprise has had its qualification terminated or revoked within five taxable years after you first claimed the training credit for a healthy forest enterprise, you must recapture a percentage of the total training credit you took in all prior years. How much credit you must recapture depends on the year you first received the credit, and how long ago it was. The percentage of credit you must recapture is shown in the following table.

If you first received the credit	The percentage is
Immediately preceding year	100% (1.00)
Two taxable years ago	80% (.80)
Three taxable years ago	60% (.60)
Four taxable years ago	40% (.40)
Five taxable years ago	20% (.20)
Six or more taxable years ago	No recapture

If the qualification was revoked due to reasons beyond the control of the business as determined by Commerce, you do not have to recapture the credit.

If you are required to recapture the training credit, complete Part 8 as instructed on the form.

Part 9 - S Corporation Credit Elections and Shareholder's Share of Credits and Credit Recaptures

The S corporation must complete this portion of Form 332 in order for the S corporation or its shareholders to claim the credit(s). The S corporation must make an irrevocable election either to claim the credit(s) or to pass the credit(s) through to its shareholders. The election statements on line 34 and line 35 must be signed by one of the officers of the S corporation who is also a signatory to Arizona Form 120S.

If the S corporation elects to pass the credits through to its shareholders, it must first complete Form 332, Parts 1 through 8, then complete Part 9, lines 36 through 39, separately for each shareholder. If the S corporation has been

notified of a credit recapture for a credit it passed through to its shareholders, it must also complete line 40 and line 41, as applicable, 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 through 4 of Form 332. Each shareholder would then complete Parts 11 through 15, as applicable.

Part 10 - Partner's Share of Credits and Credit Recaptures

A partnership must complete Form 332, Parts 1 through 8, then complete Part 10, lines 42 through 45, separately for each partner. If the partnership has been notified of a credit recapture, it must also complete line 46 and line 47, as applicable, 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 through 4 of Form 332. Each partner would then complete Parts 11 through 15, as applicable.

Part 11 - Recapture Summary for Employment Credit

Use lines 48 through 53 to determine whether you have any allowable employment credit remaining, even if you have to recapture some of it. Complete Part 11 as instructed on the form.

Part 12 - Recapture Summary for Training Credit

Use lines 54 through 59 to determine whether you have any allowable training credit remaining, even if you have to recapture some of it. Complete Part 12 as instructed on the form.

Part 13 - Available Employment Credit Carryover

Lines 60 through 65 -

Use Part 13 to figure your available employment credit carryover. Complete lines 60 through 65 if you claimed the employment credit on a prior year return and your employment credit was more than your tax.

Enter the taxable year(s) from which you are carrying over the employment credit in column (a) on lines 60 through 64. In column (b), enter the employment credit originally computed for that taxable year. In column (c), enter the amount of the employment 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 60 through 64 in column (d). Enter the total on line 65, column (d). This is the available employment credit carryover available for the current taxable year.

**Part 14 - Available Training Credit Carryover
Lines 66 through 71 -**

Use Part 14 to figure your available training credit carryover. Complete lines 66 through 71 if you claimed the training

credit on a prior year return and your training credit was more than your tax.

Enter the taxable year(s) from which you are carrying over the training credit in column (a) on lines 66 through 70. In column (b), enter the training credit originally computed for that taxable year. In column (c), enter the amount of the training 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 66 through 70 in column (d). Enter the total on line 71, column (d). This is the available training credit carryover available for the current taxable year.

Part 15 - Total Available Credit

Line 72 -

Enter the current year's employment credit.

Individuals, corporations, exempt organizations with UBTI, or S corporations claiming the credit - enter the amount from Part 5, line 17, column (d).

S corporation shareholders - enter the amount from Part 9, line 38.

Partners of a partnership - enter the amount from Part 10, line 44.

Line 73 -

Enter the current year's training credit.

Individuals, corporations, exempt organizations with UBTI, or S corporations claiming the credit - enter the amount from Part 6, line 21, column (b).

S corporation shareholders - enter the amount from Part 9, line 39.

Partners of a partnership - enter the amount from Part 10, line 45.

Line 74 -

Enter the amount of available employment credit carryover from Part 13, line 65, column (d).

Line 75 -

Enter the amount of available training credit carryover from Part 14, line 71, column (d).

Line 76 -

Add lines 72 through 75 and enter the total here.

Corporations, exempt organizations with UBTI, and S corporations - enter the total available credit on Arizona Form 300, Part 1, line 11, column (c).

Individuals - enter the total available credit on Arizona Form 301, Part 1, line 17, column (c).

FORM 332-1 QUALIFIED EMPLOYEES

Alternative formats prescribed by the department may also be used to file this form. For example, the department will accept a hard copy spreadsheet that contains all the requested information or the information may be compiled with a spreadsheet program such as Microsoft Excel and submitted on a CD-ROM or DVD-ROM. The chosen media must be Microsoft Windows compatible. Regardless of the form, the information must be filed on or before the due date of the tax return, including any extensions.

Taxpayers submitting the information on CD-ROM or DVD-ROM should secure the CD-ROM or DVD-ROM in a hard case and include it with the tax return. Forms 332-1, 332-2 and/or 332-3 submitted on CD-ROM or DVD-ROM

are part of the income tax return and are subject to the sworn statement on the return that they are true and correct to the best of the signer's knowledge and belief.

The CD-ROM or DVD-ROM should be labeled as Forms 332-1, 332-2 and 332-3, with the taxpayer's name, employer identification number and taxable year listed.

Taxpayers may password protect the CD-ROM or DVD-ROM and email the password separately to MediaLibrarian@azdor.gov. Include "Form 332-1, 332-2 and/or 332-3" in the subject line of the email. In the body of the email, include the same information that is on the CD-ROM or DVD-ROM label. The department will not return or copy any media.

CAUTION: Taxpayers that substitute the CD-ROM or DVD-ROM do so at their own risk and understand that the information may need to be provided to the department again at a later date if it is not accessible by the department for any reason.

Complete a Form 332-1 for each qualified employee. Include the employee's name, social security number, and the date each employee was hired. If an employee's job duties do not involve or directly support the harvesting, transporting or processing of qualifying forest products in a qualified project, the employee is not in a qualified employment position. Do not complete a Form 332-1 for employees that are not in qualified employment positions. These employees should not be listed on Form 332-2 or Form 332-3, and will not be used to compute the credits.

FORM 332-1, LINE 6 - complete this line if the employee was previously employed by the business (prior to current employment).

FORM 332-1, LINES 9a AND 9b - on line 9a, enter the total amount of the insurance premium or membership cost provided for the employee. If the business is self-insured, list the total amount of a predetermined fixed cost for the employee for an insurance program that is payable whether or not the employee has filed claims. On line 9b, enter the total amount of the insurance premium or membership cost paid by the employer.

FORM 332-2 QUALIFIED EMPLOYEES FOR WHICH YOU ARE TAKING THE EMPLOYMENT CREDIT

Complete the requested information for each employee in a qualified employment position for whom you are taking the employment credit. Utilize Forms 332-1 and 332-2 to complete Part 5, lines 14 through 17 on page two of Form 332.

FORM 332-3 QUALIFIED EMPLOYEES FOR WHICH YOU ARE TAKING THE TRAINING CREDIT

Complete the requested information for each employee in a qualified employment position for whom you are taking the training credit. Utilize Forms 332-1 and 332-3 to complete Part 6, lines 18 through 21 on page two of Form 332.