

2015 Agricultural Water Conservation System 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 click on *Legal Research* then click on *Procedures* or *Rulings* and select tax a type from the drop down menu.

Publications and Brochures

To view or print the department's publications and brochures, go to our website and click on *Publications*.

General Instructions

NOTE: *You must also complete Arizona Form 301, Nonrefundable Individual Tax Credits and Recapture, and include Forms 301 and 312 with your tax return to claim this credit.*

Arizona law allows a nonrefundable tax credit for the purchase and installation of an agricultural water conservation system. The credit is equal to 75% of the qualifying expenses incurred during the taxable year.

This credit is available to individuals only. A corporation, including an S corporation, may not claim this credit. However, an S corporation may pass the credit through to its individual shareholders. A partnership may not claim this credit, but may pass the credit through to its individual partners.

To Qualify for the Credit:

- The system must be primarily designed to substantially conserve water on land that the taxpayer or taxpayer's tenant uses to:
 - produce crops, fruits, or other agricultural products; **or**
 - raise, harvest, or grow trees; **or**
 - sustains livestock.
- The expense must be consistent with a conservation plan that the taxpayer has filed and that is in effect with the United States Department of Agriculture Soil Conservation Service.

If the allowable tax credit exceeds the taxes otherwise due, or if there are no taxes due, you may carry the unused credit forward for a period not to exceed the next five taxable years.

Individual co-owners of a business, including individual partners in a partnership and individual shareholders of an S corporation, may each claim only a pro rata share of the

credit, based on their 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.

You cannot take a subtraction for the same expenses for which you claim a credit. If you claim this credit, you must add the amount of the expenses taken for the taxable year to your Arizona gross income.

For example: if the taxpayer had \$10,000 of qualifying expenses the credit would be \$7,500 and the add back would be \$10,000. The individual would include \$10,000 on the Arizona individual income tax return under "*Other Additions*".

Specific Instructions

Type or print the required information in the name and taxpayer identification number section at the top of the form. Indicate the period covered by the taxable year. Include the completed form with the income tax return.

All returns, statements, and other documents filed with the department require a TIN. The TIN for a partnership or an S corporation is the taxpayer's employer identification number (EIN). The TIN for an individual is the taxpayer's SSN or an Internal Revenue Service (IRS) individual taxpayer identification number (ITIN). Taxpayers that fail to include their identification number may be subject to a penalty.

Part 1 - Qualifying Water Conservation System

Lines 1 through 3 -

On lines 1 through 3, enter the information relating to the water conservation system purchased and installed for which the credit is being claimed.

If the system is not one of the systems or system changes listed, check the "other" box. Give a detailed description of the system and an explanation of how it qualifies for the credit.

Part 2 - Calculation of the Current Taxable Year's Credit

Lines 4 through 7 -

Line 4 -

Enter the total amount of expenses relating to the water conservation system spent in the current taxable year.

Line 5 -

Enter the amount of any reimbursement received for expenses relating to the water conservation system.

Lines 6 and 7 -

Complete these lines as instructed on the form.

Part 3 - S Corporation - Individual Shareholder's Share of Credit

Lines 8 through 11 -

An S corporation cannot claim this credit, but it may pass the credit through to its individual shareholders. If an S corporation is passing the credit through to its individual shareholders, the S corporation must complete Parts 1 and 2

of Form 312. Then, complete Part 3, lines 8 through 11 separately for each individual shareholder.

Each individual shareholder may claim only a pro rata share of the credit based on the individual shareholder's ownership interest in the S corporation.

An individual cannot take a subtraction for the same expenses for which a credit is claimed. If you claim this credit, you must add the amount of the expenses taken for the taxable year to your Arizona gross income.

The amount of the individual shareholder's share of qualifying expenses that must be added to the individual shareholder's income is reported in Part 3, on line 10. The individual shareholder is required to include this amount on their individual Arizona income tax return under "Other Additions".

The S corporation must furnish each individual shareholder with a copy of the completed Form 312.

Each individual shareholder must complete Parts 5 and 6.

Part 4 - Partnership - Individual Partner's Share of Credit

Lines 12 through 14 -

The partnership must complete Parts 1 and 2. Then, complete Part 4, lines 12 through 14, separately for each individual partner. Each individual partner may claim only a pro rata share of the credit based on the individual partner's ownership interest in the partnership.

The partnership must furnish each individual partner with a copy of the completed Form 312.

Each individual partner must complete Parts 5 and 6.

Part 5 - Available Credit Carryover

Lines 15 through 20 -

Calculate the total available carryover of the agricultural water conservation credit from tax years 2010 through 2014 on Part 5, lines 15 through 20. Complete these lines if you claimed the credit on a prior taxable year's tax return and the credit was more than your tax.

- In column (b) enter the credit originally computed for the taxable year listed in column (a).
- In column (c) enter the amount of the credit from that taxable year which you have already used.
- In column (d) subtract the amount in column (c) from the amount in column (b) and enter the difference.
- Add the amounts entered on lines 15 through 19 in column (d).

Enter the total on line 20, column (d).

Part 6 - Total Available Credit

Lines 21 through 23 -

Line 21 -

- *Individuals* – Enter the amount from Part 2, line 7. Also, enter this amount on Form 301, line 8, column (a).
- *Individual shareholders of an S corporation* - Enter the amount from Part 3, line 11. Also, enter this amount on Form 301, line 8, column (a).
- *Individual partners of a partnership* - Enter the amount from Part 4, line 14. Also, enter this amount on Form 301, line 8, column (a)

Line 22 -

Enter the amount of available credit carryover from Part 5, line 20, column (d). Also, enter this amount on Form 301, line 8, column (b).

Line 23 -

Add line 21 and line 22. Enter the total. Also, enter this amount on Form 301, line 8, column (c).

This is the total available credit that may be applied to the current taxable year's tax liability.

Individual shareholders of an S corporation – if you are claiming the credit, you must include the amount from Part 3, line 10, on your Arizona individual income tax return, under "Other Additions".