

2023 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 select the *About* tab on the home page and select *Legal Research* from the drop-down menu and then click on *Procedures* or *Rulings* from the drop-down menu. Using the Category box, select the tax type and then scroll down to find the *Document ID* or use the *Search Keyword* function to locate the document.

Publications

To view or print the department's publications, go to our website select the *About* tab on the home page and select *Legal Research* from the drop-down menu and then click on *Publications* from the drop-down menu.

Purpose of Form

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 Revised Statute (A.R.S.) § 43-1084 allows a nonrefundable tax credit for the purchase and installation of an agricultural water conservation system. Complete Form 312 to claim this nonrefundable credit.

NOTE – To claim this credit:

- **Individual taxpayers that did not make the Small Business Income election**, complete this credit form and Arizona Form 301, Nonrefundable Individual Tax Credits and Recapture. Include both completed forms with your Individual Income Tax Return, (Form 140, 140PY, 140NR or 140X).
- **Individual taxpayers that made the Small Business Income election**, complete this credit form and Arizona Form 301-SBI, Nonrefundable Individual Tax Credits and Recapture for Form 140-SBI, 140PY-SBI, 140NR-SBI and 140X-SBI. Include both completed forms with your SBI Tax Return (Form 140-SBI, 140PY-SBI, 140NR-SBI or 140X-SBI).

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**
 - sustain 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.

The credit is equal to 75% (.75) of the qualifying expenses incurred during the taxable year.

The credit allowed is in lieu of any deduction for such expenses allowed by the internal revenue code and included under A.R.S. § 43-1042 (itemized deductions) in computing taxable income.

Who May Claim this Credit?

This credit is available to individuals *only*. A partnership may not claim this credit, but may pass the credit through to partners who are individuals, S Corporations and other partnerships. A corporation, including an S Corporation, may not claim this credit. However, an S Corporation may pass the credit through to its individual shareholders.

Individual co-owners of a Partnership or S Corporation, may each claim only a pro rata share of the credit, based on 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.

NOTE: If the entity is passing through a credit for more than one location for expenses incurred during the taxable year to purchase and install an agricultural water conservation system, complete a separate Form 312 for each location. Include all forms with your tax return.

A partnership passing the current year's credit through to its individual partners must do the following:

- Complete Part 1 and Part 2, lines 1 through 10.
- Complete Form 312-P, *Agricultural Water Conservation System Credit - Distribution to Partners*, for each partner and provide the partner with a copy of Form 312-P. Complete a separate 312-P for each location. Form 312-P is available on the department's website.

Instructions for completing Form 312-P are included, at the end of these instructions, beginning on page 4.

The partner will use Form 312-P to complete their own Form 312 to claim the *pro rata* share of the credit or another Form 312-P, if applicable.

- Include Forms 312 and 312-P with its tax return.
- Keep a copy of Forms 312 and 312-P for its record.

An S Corporation passing the current year's credit through to its individual shareholders must do the following:

- Complete Part 1 and Part 2, lines 1 through 10.
- Complete Form 312-S, *Agricultural Water Conservation System Credit - Distribution to Individual shareholders of an S Corporation*, for each individual shareholder and provide the shareholder with a copy of Form 312-S.

Complete a separate 312-S for each location. Form 312-S is available on the department's website.

Instructions for completing Form 312-S are included, at the end of these instructions, beginning on page 4.

The individual shareholder will use Form 312-S to complete their own Form 312 to claim the *pro rata* share of the credit.

- Include Forms 312 and 312-S with its tax return.
- Keep a copy of Forms 312 and 312-S for its record.

Individual taxpayers claiming his or her own current year's credit for expenses incurred during the taxable year to purchase and install an agricultural water conservation system in this state must do the following:

- Complete Part 1, Part 2 and Part 4.
- Complete Part 3, if claiming an unused credit carryover amount from a prior tax year.
- Include Form 312 with the income tax return, when filed.

NOTE: *If you are claiming a credit for more than one location for expenses incurred during the taxable year to purchase and install an agricultural water conservation system, complete a separate Form 312 for each location. Include all forms with your tax return.*

Individual taxpayers claiming a pass-through credit for the current tax year from a partnership and/or an S Corporation must do the following:

- Complete Part 2, line 8 and/or line 9, using the information provided by the S Corporation on Form 312-S or the Partnership on Form 312-P. If you received more than one Form 312-P and/or Form 312-S, enter the total on line 8 and/or line 9.
- Complete Part 3, if claiming an unused credit carryover amount from a pass-through credit from a prior tax year.
- Include Form 312, Forms 312-S and/or 312-P, with the income tax return, when filed.

NOTE: *To claim a credit, the individual taxpayer **must** also complete Arizona Form 301, Nonrefundable Individual Tax Credits and Recapture, and include it with his or her tax return.*

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.

NOTE: *The maximum amount of credit established for the current taxable year does **not** include any unused valid carryover amount(s) from prior taxable years. Because this is a nonrefundable tax credit, the total amount of available credit [current year plus any valid carryover amount(s)] that a taxpayer may **use** for the taxable year cannot be greater than the tax liability shown.*

A taxpayer (including individual shareholders receiving a pass-through credit from an S Corporation) cannot take a subtraction for the same expenses for which a credit is claimed.

For example: If the taxpayer had \$10,000 of qualifying expenses (Part 2, line 6), the credit would be \$7,500 (Part 2, line 7) and the add-back would be \$10,000. The individual would include \$10,000 on the Arizona individual income tax return under "*Other Additions to Income.*" An individual shareholder claiming a pass-through credit would add-back his or her pro rata share of the qualifying expenses on the individual income tax return under "*Other Additions to Income.*" The amount the shareholder is required to add-back is reported by the S Corporation on Form 312-S, line 1.

A taxpayer who elects to report their small business income on the Small Business Income tax return (SBI) and claims this credit on the SBI tax return is required to make the add-back adjustment on their SBI tax return on page 1 under the section, *Additions Related to Small Business Income.*

Line-by-Line 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 taxpayer identification number (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 Social Security Number (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.

NOTE: *Complete Parts 1, 2 and 4, if you are claiming a new credit for the current tax year. If you are passing-through this credit, complete Parts 1, 2 and Form 312-S.*

*If you are **only** claiming a carryover amount available from a previous credit, complete Parts 1, 3 and 4.*

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 10 -

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.

Line 8

If you are claiming a pass-through credit from a partnership, enter the amount from Form 312-P, line 1.

Line 9

If you are claiming a pass-through credit from an S Corporation, enter the amount from Form 312-S, line 2.

Line 10

Add lines 7, 8 and 9. Enter the total. This is your current taxable year's credit.

Part 3 - Available Credit Carryover**Lines 11 through 16**

Calculate the total available carryover of the agricultural water conservation credit from tax years 2018 through 2022 in Part 3, lines 11 through 16. 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 11 through 15 in column (d). Enter the total on line 16, column (d).

Part 4 - Total Available Credit**Lines 17 through 19 -****Line 17**

Enter the amount from Part 2, line 10.

Individuals that did not make the Small Business Income election: Also enter this amount on Form 301, Part 1, line 4, column (a).

Individuals that made the Small Business Income election: Also enter this amount on Form 301-SBI, Part 1, line 3, column (a).

Line 18

Enter the amount of available credit carryover from Part 3, line 16, column (d).

Individuals that did not make the Small Business Income election: Also enter this amount on Form 301, Part 1, line 4, column (b).

Individuals that made the Small Business Income election: Also enter this amount on Form 301-SBI, Part 1, line 3, column (b).

Line 19

Add line 17 and line 18. Enter the total.

Individuals that did not make the Small Business Income election: Also enter this amount on Form 301, Part 1, line 4, column (c).

Individuals that made the Small Business Income election: Also enter this amount on Form 301-SBI, Part 1, line 3, column (c).

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

Form 312-P, Agricultural Water System Credit - Distribution to Partners

NOTE: Form 312-P is available on the department's website. If you are passing a credit for more than one location, complete a separate Form 312-P for each location.

Instructions for Partnerships Passing the Credit to Partners

- Enter the name of the partnership and employer identification number at the top of Form 312-P.
- In the space provided, enter the partner's name, social security or employer identification number, and ownership percentage.

Each partner is entitled to a *pro rata* share of the credit, based on its ownership percentage.

Line 1 -

Enter the partners' pro rata share of the current year's credit based on ownership interest from Form 312, Part 2, line 10.

Instructions for Partners Receiving Form 312-P

- Enter the amount from Form 312-P, line 1, on your own Form 312, Part 2, line 8.

If you are claiming a pass-through credit from more than one partnership, add all amounts from Forms 312-P and enter the total on Form 312, Part 2, line 8.

- If the partner is an S Corporation it must also complete a separate Form 312-S for each individual shareholder identifying the shareholder's pro rata share of qualifying expenses and pass-through credit amount.
- If the partner is another partnership, it must complete a separate Form 312-P for each partner that is an individual, S Corporation or other partnership identifying the partner's pro rata share of the pass-through credit amount.

NOTE: If you file your income tax return on a calendar year basis (January 1, 2023 – December 31, 2023) but the partnership or S Corporation passing the credit files its return on a fiscal year basis, claim the pass-through credit on your income tax return for the year in which the Partnership or S Corporation's fiscal year ends. For example, if the partnership or S Corporation's tax year ends in February 2024, claim this credit on your 2024 tax return.

Form 312-S, Agricultural Water System Credit - Distribution to Individual Shareholders

NOTE: Form 312-S is available on the department's website. If you are passing a credit for more than one location, complete a separate Form 312-S for each location.

Instructions for S Corporations Passing the Credit to Individual Shareholders

- Enter the name of the S Corporation and employer identification number at the top of Form 312-P.
- In the space provided, enter the individual shareholder's name, social security number, and ownership percentage.

Each individual shareholder is entitled to a *pro rata* share of the credit, based on his or her ownership percentage.

Line 1

Enter the individual shareholder's pro rata share of qualifying expenses based on ownership interest from Form 312, Part 2, line 6.

Line 2

Enter the individual shareholder's pro rata share of current year's credit based on ownership interest from Form 312, Part 2, line 10.

Instructions for Individual Shareholders Receiving Form 312-S

- Enter the amount from Form 312-S, line 2, on your own Form 312, Part 2, line 9.

If you are claiming a pass-through credit from more than one S Corporation, add all amounts from Forms 312-S and enter the total on Form 312, Part 2, line 9.