

2024 Pollution Control 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*. On the next page, click on *Legal Research*. Select a Document Type and a Category from the drop down menus. If you know the document ID number you may enter it in the Search field and then press enter.

Publications

To view or print the department's publications, go to our website, scroll down, click on *Reports & Legal Research*, and click on *Publications* in the right hand column.

General Instructions

Arizona Revised Statutes § 43-1170 provides nonrefundable corporate income tax credits for expenses incurred during the taxable year to purchase real or personal property that is used within Arizona in the taxpayer's trade or business to control or prevent pollution. The amount of the credit is equal to 10% of the purchase price, limited to a maximum credit of \$500,000 in a taxable year.

NOTE: *The last year an individual taxpayer could establish the Pollution Control Credit was taxable year 2021. Any unused portion of a valid Pollution Control Credit may be carried forward for the remainder of the five-year carry forward period.*

A partnership may not pass this credit through to its individual partners; it may, however, pass this credit through to its corporate partners. An S Corporation may not pass this credit through to its shareholders; however, it may claim this credit at the corporate level.

Qualifying property includes a structure, building, installation, excavation, machine, equipment, and any attachment to, or addition to, or reconstruction, replacement, or improvement of that property. Property eligible for the tax credit includes only that portion of the property directly used, constructed, or installed in Arizona to prevent, monitor, or reduce air, water, or land pollution that results from the taxpayer's direct operating activities in conducting a trade or business in this state. The property must meet or exceed rules or regulations adopted for this purpose by the United States Environmental Protection Agency, the Arizona Department of Environmental Quality, or a political subdivision of Arizona.

Amounts that qualify for the credit must be includible in the taxpayer's adjusted basis for the property. The adjusted basis of any property for which the taxpayer has claimed a credit must be reduced by the amount of credit claimed for that property.

If the allowable tax credit exceeds the taxes otherwise due 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 five taxable years as a credit against subsequent years' income tax liabilities.

The pollution control equipment credit claimed on Form 315 is in lieu of the agricultural pollution control credit claimed on Form 325 with respect to the same equipment or expense.

Co-owners of a business, including partners in a partnership and shareholders of an S Corporation, 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:

- *Individual taxpayers are no longer able to claim this credit.*
- *C corporations, S Corporations claiming this credit at the corporate level, and 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.*
- *S Corporations shall not pass this credit through to shareholders.*
- *Partnerships shall not pass this credit through to individual partners. Complete this credit form to pass this credit through **only** to corporate partners. Also, complete Form 315-P for each corporate partner of the partnership. Provide each corporate partner a copy of its completed Form 315-P. Include Form 315 and one copy of each completed Form 315-P with your tax return.*

Specific Instructions

Complete the name and taxpayer identification number (TIN) section at the top of the form. Indicate the period covered by the taxable year. Include the completed form with the tax return.

All returns, statements, and other documents filed with the department require a TIN. The TIN for a corporation, an exempt organization with UBTI, an S Corporation, or a partnership 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 individual taxpayer identification number (ITIN). Taxpayers that fail to include their TIN may be subject to a penalty.

NOTE: *Individual taxpayers with a valid carryover of this credit, skip to Part 5.*

Part 1 - Schedule of Equipment and Current Taxable Year's Credit Calculation

Lines 1 through 10

Column (a): Enter the date that the qualifying property was placed in service or the date it is expected to be placed in service in Arizona.

Column (b): Enter a brief description of the property used in the taxpayer's business in Arizona to control or prevent pollution.

Column (c): Enter the total cost incurred during the taxable year for qualifying property used to reduce pollution. For additional information, see the definition of "Qualifying property" in column 1 of this page.

If there are more than 10 items of qualifying property, complete additional schedules. Include the completed schedules with Form 315.

Line 11

Add lines 1 through 10 in column (c) and enter the total.

Line 12

Enter the total amounts in column (c) from additional schedules.

Line 13

Add lines 11 and 12. Enter the total. This is the total cost of pollution control equipment incurred during this taxable year.

Line 14

Multiply line 13 by 10% (.10) and enter the result.

Part 2 - Credit Passed Through From Partnerships to Corporate Partners

NOTE: *If you received a pass through of this credit from more than one partnership, total the amounts received from all Form(s) 315-P and enter the amount. Include a copy of each Form 315-P you received with your return.*

Line 15

Enter the total amount of this credit passed through from partnerships on Form(s) 315-P, line 4.

Part 3 - Total Current Year Credit

Line 16

Add lines 14 and 15. Enter the total.

Line 17 - Maximum Credit Allowed

The maximum amount of credit you may claim in a taxable year is \$500,000.

Line 18

Enter the lesser of line 16 or line 17. This is your maximum current year credit for pollution control.

Partnerships - continue to Part 4.

All others - go to Part 5.

Part 4 - Partnerships Passing Through the Credit

Partnerships qualifying for this credit must pass it through to their corporate partners. Proceed to the instructions on page 3 for completing Form 315-P.

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

NOTE: *Trusts and estates which are partners in a partnership are not eligible to claim this credit. However, the share of a partnership owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of the credit.*

Part 5 - Available Credit Carryover

Complete Part 5 only if you claimed this credit for prior taxable years and the credit exceeded the Arizona income tax liability for those taxable years.

Individual taxpayers with valid carryovers of this credit, complete Part 5.

Lines 19 through 23

Enter the applicable taxable year(s) in column (a) on lines 19 through 23. In column (b), enter the credit originally computed for that taxable year. In column (c), enter the amount of the credit from that taxable year that was previously used or expired. Subtract the amount in column (c) from column (b) and enter the difference in column (d).

Line 24

Add the amounts entered on lines 19 through 23 in column (d). Enter the total on line 24, column (d). This is the total pollution control credit carryover available for the current taxable year.

Part 6 - Total Available Credit

Individual taxpayers with valid carryovers of this credit, complete Part 6, lines 26 and 27.

Line 25

C corporations, S Corporations that elected to claim the credit at the corporate level, and exempt organizations with UBTI: enter the current year's credit from Part 3, line 18.

Partnerships: Enter "0".

C corporations, S Corporations that elected to claim this credit at the corporate level, and exempt organizations with UBTI:— Also enter this amount on Form 300, Part 1, line 2, column (a).

This is your current taxable year's pollution control credit.

Line 26

Enter the amount from Part 6, line 24, column (d). This is your total available credit carryover.

*Individuals with valid carryovers of this credit that **did not make the Small Business Income election**, enter this amount on Form 301, Part 1, line 5, column (b).*

*Individuals with valid carryovers of this credit that **made the Small Business Income election**, enter this amount on Form 301-SBI, Part 1, line 4, column (b).*

C corporations, S Corporations that elected to claim this credit at the corporate level, and exempt organizations with UBTI: Also enter this amount on Form 300, Part 1, line 2, column (b).

Line 27

Add line 25 and line 26. Enter the total. This is the total available pollution control credit that may be applied to the current taxable year's tax liability.

*Individuals with valid carryovers of this credit that **did not make the Small Business Income election**, enter this amount on Form 301, Part 1, line 5, column (c).*

*Individuals with valid carryovers of this credit that **made the Small Business Income election**, enter this amount on Form 301-SBI, Part 1, line 4, column (c).*

C corporations, S Corporations that elected to claim this credit at the corporate level, and exempt organizations with UBTI: Also enter this amount on Form 300, Part 1, line 2, column (c).

Form 315-P, Distribution to Corporate Partners of a Partnership

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

Complete Form 315-P for each corporate partner of the partnership.

The partnership must furnish each corporate partner with its completed copy of Form 315-P, including additional schedules as needed.

Part 1 – Partnership and Corporate Partner Information

Line 1

Enter the partnership's name and EIN in the spaces provided.

Line 2

Enter the corporate partner's name, EIN and ownership percentage in the spaces provided.

Part 2 – Distribution of the Credit

Line 3

Enter the total amount of the partnership's pollution control credit from Form 315, Part 3, line 18.

Line 4

Multiply the amount on line 3 by the corporate partner's ownership percentage shown on line 2(c). Enter the result. This is the partner's portion of the credit.

Each corporate partner will use this form to complete its own Form 315.

Part 3 – Corporate Partner's Share of Excess Depreciation/Amortization and/or Excess Federal Adjusted Basis

Line 5

Enter the partnership's excess depreciation/amortization expense and/or excess federal adjusted basis.

Line 6

Multiply the amount on line 5 by the corporate partner's ownership percentage shown on line 2(c). Enter the result. This is the corporate partner's portion of the excess federal depreciation or amortization of the property and/or the excess federal adjusted basis of the property.

Each corporate partner will include this amount in the calculation of "Other Additions" on its corporate return.