

2024 Healthy Forest Production Tax Credit

HEALTHY FOREST PRODUCTION TAX CREDIT CONTACT INFORMATION	
Arizona Commerce Authority	
•Certification requirements	•Certification forms
•Program guidelines	
<i>Website:</i> www.azcommerce.com	
Program Manager	(602) 845-1200
Arizona Department of Revenue	
•Tax forms and instructions •Information and assistance	
<i>Website:</i> www.azdor.gov	
Taxpayer assistance	(602) 255-3381
From area codes 520 and 928, toll-free	(800) 352-4090

General Instructions

Arizona Revised Statutes §§ 43-1076.01 and 43-1162 provide for nonrefundable individual and corporate income tax credits for processing qualifying forest products.

A taxpayer is eligible for this credit if all of the following apply:

- The taxpayer has a current Healthy Forest Enterprise Incentive Certification and Memorandum of Understanding with the Arizona Commerce Authority.
- The taxpayer processes qualifying forest products from a qualifying project from and after December 31, 2020 and before January 1, 2031.
- The facility that processes qualifying forest products is located within this state.

“Qualifying forest products” means dead standing and fallen timber, and forest thinnings associated with the harvest of small diameter timber, slash, wood chips, peelings, brush and other woody vegetation, removed from federal, state and other public forest land and from private forest land.

A “qualifying project” means harvesting, transporting or processing qualifying forest products as required for certification.

“Processed” or “processing” means any change in the physical structure of qualifying forest products removed from a qualifying project into a marketable commercial product or component of a product that has commercial value with or without further altering its form.

Claiming the Credit

To claim this credit, the taxpayer must apply to the department for certification of the credit. The department shall accept applications beginning January 2 through January 31 of the year following the calendar year for which the credit is being requested.

The application must include:

- The taxpayer’s name, address and social security number or federal employer identification number.
- The location of the taxpayer’s facility that processes qualifying forest products for which the credit is claimed.

- The amount of the credit being claimed.
- The date the taxpayer began processing commercially marketable amounts of qualifying forest products.
- Any additional information the department requires.

The first time a taxpayer submits a qualified application, the department shall add the taxpayer’s name to a credit authorization list in the order in which qualified applications are first received by the department. A taxpayer’s position on the list shall be determined in the first year the taxpayer submits an application. The taxpayer’s position on the list shall remain unchanged for the remainder of the credit period, or until a year in which the taxpayer fails to submit a timely application. If a taxpayer is removed from the credit authorization list, the taxpayer may establish a new position on the credit authorization list in a subsequent year by filing a timely application for processing qualifying forest products that qualifies for the credit.

The credit authorized is based on the number of tons of qualifying forest products that a taxpayer processes during a calendar year. For a taxpayer that files a fiscal year return, the credit shall be claimed on the return for the taxable (fiscal) year in which the calendar year ends.

The amount of the credit is \$10,000 for the first twenty thousand tons and \$5,000 for every ten thousand tons thereafter of qualifying forest products the taxpayer processes in the calendar year.

Credits are allowed on a first-come, first-served basis. The amount of the credit for any calendar year may not exceed \$500,000 per taxpayer that processes qualifying forest products, or \$2,000,000 in the aggregate for any calendar year.

If an application is received that, if authorized, would require the department to exceed the \$2,000,000 limit, the department shall grant the applicant only the remaining credit amount that would not exceed the \$2,000,000 limit.

Co-owners of a facility that processes qualifying forest products, including partners in a partnership and shareholders of an S Corporation, may each claim a pro rata share of the credit allowed based on ownership interest. The total of all such owners may not exceed the amount that would have been allowed under a sole owner.

If the current taxable year’s credit exceeds the taxpayer’s tax liability for the taxable year, the taxpayer may carry forward the unused credit to the next five consecutive years.

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 and all supporting documentation 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). Taxpayers that fail to include their TIN may be subject to a penalty.

NOTE – To claim this credit:

- **Individuals 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).
- **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.
- **Partnerships**, complete this credit form. Also, complete Form 353-P for each corporate partner of the partnership. Provide each corporate partner a copy of his or her completed Form 353-P. Include Form 353 and one copy of each completed Form 353-P with your tax return.

Part 1 – Qualification for and Current Taxable Year’s Credit**Line 1**

If you have a current Healthy Forest Enterprise Incentive Certification and Memorandum of Understanding with the Arizona Department of Commerce, check “Yes”. If you do not, check “No”. STOP! You are not eligible to claim this credit.

Line 2

If you have a certification from the Arizona Department of Revenue, check “Yes”, continue to line 3. If you do not, check “No” and skip to line 4.

Line 3

If you checked “Yes” on line 3, enter the amount of this credit from the Certification you received from the Arizona Department of Revenue for this taxable year.

Line 4

Did an entity from which you are claiming a pass through of the Healthy Forest Production Tax Credit receive Certification from the Arizona Department of Revenue?

- If yes, check “Yes”. Include a copy of the certification(s) and Form(s) 353-P and/or 353-S.
- If no, check “No”. Skip lines 5 and 6.

NOTE: *If you checked “No” on lines 2 and 4, do not file this form unless you have carryovers from prior years.*

Line 5

Enter the amount of this credit passed through from partnerships on Form 353-P, line 5.

Line 6

Enter the amount of this credit passed through from S Corporations on Form 353-S, line 5.

Note to lines 5 and 6: *If you received a pass through of this credit from more than one partnership and/or S Corporation, total the amounts received from all Forms 353-P and/or Forms 353-S and enter the amount. Include a copy of each Form 353-P and/or Form 353-S you received with your return.*

Line 7

Add lines 3, 5, and 6. Enter the total. This is your current taxable year’s Healthy Forest Production Tax Credit.

Part 2 - Partnerships

Partnerships claiming these credits must pass them through to its individual partners. Proceed to the instructions for completing Form 353-P on page 4.

Each individual partner is entitled to only a *pro rata* share of each credit based on the partner’s ownership interest in the partnership. The total of each credit allowed to all 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 these credits. 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 these credits.*

Part 3 – S Corporation Credit Election and Shareholder’s Share of Credit**Lines 8, 8a, & 8b**

The S Corporation must complete line 8 and line 8a or 8b. The S Corporation must make an irrevocable election either to claim the current taxable year credit at the corporate level or to pass the current taxable year credit through to its shareholders. The S Corporation election is made by:

- Entering the date the S Corporation’s taxable year ends in the box provided on line 8.
- Checking the box on line 8a electing to claim the current taxable year credit at the corporate level; or,
- Checking the box on line 8b electing to pass the current taxable year credit through to its shareholders.
- The election statement must be signed by an officer of the S Corporation who is also a signatory to Arizona Form 120S.

If the S Corporation elects to claim the credit at the corporate level, ensure line 8 is signed by an officer of the S corporation, check Box 8a, and continue to Part 5.

If the S Corporation elects to pass this credit through to its shareholders, proceed to the instructions for completing Form 353-S on page 4.

If passing this credit through to the shareholders:

- Ensure line 8 is signed by an officer of the S Corporation who is also a signatory to Arizona Form 120S.
- Check Box 8b.

- Enter “0” on Part 5, line 15.
- Complete Form 353-S for each shareholder.
- Provide a copy of completed Form 353-S to each shareholder.
- File a copy of each completed Form 353-S with your tax return.
- Keep a copy of each completed Form 353-S for your records.

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.

NOTE: *Trusts and estates which are shareholders of S Corporations, are not eligible to claim this credit. However, the share of an S Corporation 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 4 – Available Credit Carryover

NOTE: *For the 2024 taxable year, do NOT complete Part 4, lines 12 and 13.*

Use Part 4 to figure your available credit carryover. Complete lines 9 through 11 if you claimed the Healthy Forest Production Tax Credit on a prior taxable year return and your credit was more than your tax.

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.

Lines 9 through 11

Enter the following information in the columns indicated on lines 9 through 11:

- a) Taxable Year – the taxable year from which you are carrying over the employment credit.
- b) Original Credit Amount - the amount of the credit you originally computed.
- c) Amount Previously Used – the employment credit from that taxable year you have already used or the amount of the credit that expired.
- d) Available Credit Carryover – Subtract the amount in column (c) from the amount in column (b). Enter the difference. This is the available employment credit carryover available for the current taxable year.

Lines 12 and 13

Do not enter an amount on lines 12 and 13.

Line 14

Add the amounts on lines 9 through 11 in column (d). Enter the total. This is your available Healthy Forest Production Tax Credit carryover for the current taxable year.

Part 5 - Total Available Credit

Line 15 Current Year's Credit

Enter the current year's credit.

Individuals, C Corporations, S Corporations claiming this credit at the corporate level, and exempt organizations with UBTI: enter the amount from Part 1, line 7.

Partnerships: and S Corporations that passed this credit through shareholders: Enter “0”.

*Individuals that **did not make the Small Business Income election:*** Also enter this amount on Form 301, Part 1, line 21, column (a).

*Individuals that **made the Small Business Income election:*** Also enter this amount on Form 301-SBI, Part 1, line 14, column (a).

C Corporations, S Corporations claiming this credit at the corporate level, and exempt organizations with UBTI: Also enter this amount of Form 300, Part 1, line 13, column (a).

Line 16 Available Credit Carryover

Enter the amount of carryover from Part 4, line 14, column (d).

*Individuals that **did not make the Small Business Income election:*** Also enter this amount on Form 301, Part 1, line 21, column (b).

*Individuals that **made the Small Business Income election:*** Also enter this amount on Form 301-SBI, Part 1, line 14, column (b).

C Corporations, S Corporations that claimed this credit at the corporate level, and exempt organizations with UBTI: Also enter this amount on Form 300, Part 1, line 13, column (b).

Line 17 Total Available Credit

Add lines 15 and 16. Enter the total.

*Individuals that **did not make the Small Business Income election:*** Also enter this amount on Form 301, Part 1, line 21, column (c).

*Individuals that **made the Small Business Income election:*** Also enter this amount on Form 301-SBI, Part 1, line 14, column (c).

C Corporations, S Corporations claiming this credit at the corporate level, and exempt organizations with UBTI: Also enter this amount on Form 300, Part 1, line 13, column (c).

Form 353-P, Distribution to Partners of a Partnership

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

Complete Form 353-P for each partner of the partnership, *except for* trust or estate partners. However, a partnership ownership share that is 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.

The partnership must furnish each partner with their completed copy of Form 353-P, including additional schedules as needed.

Distribution of the Credit

To distribute the credit to the partners of the partnership (complete lines 1 through 5):

Line 1

Enter the partnership name and EIN in the spaces provided.

Line 2

Enter the partner's name and TIN in the spaces provided.

Line 3a

Enter the amount of this credit from the partnership's Form 353, Part 1, line 7.

Line 3b

Enter the partner's ownership percentage.

Line 3c

Multiply line 3a by line 3b and enter the result.

This is the partner's portion of the credit.

Form 353-S, Distribution to Shareholders of an S Corporation

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

Complete Form 353-S for each shareholder of the S Corporation, *except for* trust or estate shareholders. However, an S Corporation ownership share that is 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.

The S Corporation must furnish each shareholder with a completed copy of Form 353-S, including additional schedules as needed.

Part 1 - Distribution of the Credit

To distribute the credit to the S Corporation shareholders (complete lines 1 through 5):

Line 1

Enter the S Corporation name, EIN in the spaces provided.

Line 2

Enter the shareholder's name and TIN in the spaces provided.

Line 3a

Enter the amount of this credit from the S Corporation's Form 353, Part 1, line 7.

Line 3b

Enter the shareholder's ownership percentage.

Line 3c

Multiply line 3 by line 3b and enter the result.

This is the shareholder's portion of the credit.