

Credit for Employment of Recipients of Temporary Assistance for Needy Families (TANF)

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This publication provides general information about the credit for employing TANF recipients. For complete details, refer to the Arizona Revised Statutes. In case of inconsistency or omission in this publication, the language of the Arizona Revised Statutes will prevail.

Q1. What is the main provision of the credit?

A1. Arizona law provides a credit for employers that employ TANF recipients. TANF is assistance granted under Section 403 of Title IV of the Social Security Act as it exists after August 21, 1996.

Q2. Is the credit available to all taxpayers?

A2. This credit is available to individuals, corporations and S corporations. This credit is also available to an exempt organization that is subject to corporate income tax on unrelated business taxable income (UBTI). The credit must result from activities that generate UBTI.

A partnership may pass the credit through to its partners. An S corporation may also pass the credit through to its shareholders.

Q3. What is the maximum credit?

A3. The maximum credit allowed for any taxable year depends on two factors. First, the taxpayer must figure how many qualifying employment positions it has.

There is no limit on the number of positions that can be qualified per taxpayer. Second, the taxpayer must figure the dollar amount of the credit for each qualified position.

Q4. How does the taxpayer claim the tax credit?

A4. The taxpayer completes Arizona Form 320 to determine the allowable tax credit.

If the partnership is passing the credit through to its partners, the partnership also completes Form 320-P for each partner showing the partner's pro rata share of the credit based on ownership interest.

If the S corporation is passing the credit through to its individual shareholders, the S corporation also completes Form 320-S for each shareholder showing the shareholder's pro rata share of the

credit based on ownership interest. Include Form 320 with the tax return when filed.

A partnership passing-through the credit, also include a copy of each 320-P.

An S corporation passing-through the credit, also include a copy of each 320-S.

The credit forms are available from the department's website at:

www.azdor.gov/forms/tax-credit-forms

Q5. How is the credit figured?

A5. First the taxpayer must figure how much credit is allowable for each qualified position. Then the taxpayer must add those amounts to arrive at the total credit. The calculation is as follows:

1. In the first year or partial year of employment, the credit is equal to 1/4 of the taxable wages paid to a qualified employee, but not more than \$500.
2. In the second year of continuous employment, the credit is equal to 1/3 of the taxable wages paid to a qualified employee, but not more than \$1,000.
3. In the third year of continuous employment, the credit is equal to 1/2 of the taxable wages paid to a qualified employee, but not more than \$1,500.

Note: For the above calculations, the wage subsidy that is provided by Section 46-299 must not be included in the taxable wages subject to the credit..

Q6. Can a taxpayer receive a refund of this credit?

A6. No. The credit may only be used to the extent it reduces the tax liability to zero. The taxpayer may carry any unused credit forward for not more than 5 consecutive taxable years.

Q7. What is a qualified employment position?

A7. A qualified employment position is a position that meets all of the following.

- The position must be classified as full-time employment.
- The position must provide health insurance

coverage if the employer offers the coverage to other employees not on TANF.

- The position must be listed on the report that you submit to the Arizona Department of Economic Security for unemployment purposes.
- The position must provide compensation equal to the minimum wage or a wage comparable to that paid other employees not receiving TANF in the same job classification.

Q8. What criteria must employees meet in order to be placed in a qualified employment position?

A8. The employee must be a resident of Arizona.

- The employee must be a recipient of TANF at the time hired.
- The employee must have been employed for at least 90 days during the first taxable year. An employee hired with less than 90 days left in the taxable year is considered to be a new employee in the next taxable year. Periods when the employee's wages are subsidized under Section 46-299 cannot be counted as employment time.
- The employee was not employed by the taxpayer within 12 months before the current date of hire.

Q9. How does a taxpayer figure the net increase in the number of qualified employment positions?

A9. The taxpayer must figure the net increase in the number of qualified positions by comparing the average number of qualified employment positions during the taxable year with the immediately preceding taxable year. This comparison is based on the report that the taxpayer submits to the Arizona Department of Economic Security for unemployment purposes.

If the business is a newly established business, the business would not have any qualified employment positions during the immediately preceding taxable year. A newly established business would have zero average employment positions during the immediately preceding taxable year.

Q10. Can a taxpayer use a qualified employment position to receive any other wage based state income tax credit?

A10. No. The position cannot be eligible for any other income tax credits that are based on wages paid.

Q11. Must a taxpayer make any adjustment to wage expenses?

A11. The taxpayer must add to its Arizona gross income the amount of those wages that are used to calculate the credit and that are taken as an expense on the federal return.

For Additional Information, call:

Phoenix(602) 255-3381
Toll free from area codes 520 & 928(800) 352-4090

Or Write to:

Arizona Department of Revenue
Taxpayer Information & Assistance
1600 W Monroe
Phoenix AZ 85007

For Related Tax Information:

Internet..... www.azdor.gov

This publication is available in an alternative format upon request.